(9)

No. 89-390

IN THE

Supreme Court of the United States

OCTOBER TERM, 1989

PENSION BENEFIT GUARANTY CORPORATION,
Petitioner,

v.

THE LTV CORPORATION; LTV STEEL COMPANY, INC.; THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF LTV STEEL COMPANY, INC. AND CERTAIN AFFILIATES; PARENT CREDITORS COMMITTEE OF THE LTV CORPORATION; LTV BANK GROUP; OFFICIAL COMMITTEE OF EQUITY SECURITY HOLDERS; BANCTEXAS DALLAS, N.A.; FIFTH THIRD BANK; HUNTINGTON NATIONAL BANK; CITIBANK, N.A.; DAVID H. MILLER; and WILLIAM W. SHAFFER,
Respondents.

On Writ of Certiorari to the United States Court of Appeals for the Second Circuit

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JOINT APPENDIX

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PETITION FOR WRIT OF CERTIORARI FILED SEPTEMBER 11, 1989
CERTIORARI GRANTED OCTOBER 30, 1989

383pp

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[1] The documents from PBGC's Administrative Record listed below are in chronological order, in accordance with Rule 30.5 of this Court's rules. In the Administrative Record, many of these documents were attachments to other documents, as shown in the index found at pages 369-75 of this Joint Appendix. The pages at which the documents may be found in the Administrative Record are indicated as "AR ———." The entire Administrative Record is contained in Exhibits to the Joint Appendix filed in the court of appeals. The original pagination was retained in the Exhibit volumes.

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UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

No. 87 Civ. 7261 (RWS)

CHRONOLOGICAL LIST OF RELEVANT DOCKET ENTRIES

DATE	PROCEEDINGS
October 9, 1987	Complaint by Pension Benefit Guaranty Corporation filed in U.S. District Court for the Southern District of New York.
December 10, 1987	Motion and brief of Plaintiffs Miller and Shaffer in support of Motion to intervene filed.
December 30, 1987	Motion of Banctexas Dallas to intervene filed.
December 30, 1987	Response and Answer of Banctexas Dallas filed.
December 30, 1987	Stipulation and Order allowing the Official Committee of Unsecured Creditors of The LTV Corporation and the Subcommittee of Parent Creditors to intervene in this action, setting January 15, 1988 as date of service for initial pleadings of Intervenors and setting January 22, 1988 as date of service for Responses to pleadings or papers of Intervenors filed.
December 31, 1987	Answer of The LTV Corporation and LTV Steel Company filed.
December 31, 1987	Stipulation authorizing the LTV Bank Group to intervene filed.
January 15, 1988	Answer and Counterclaims of Parent Subcommittee of the Official Committee filed.

DATE	PROCEEDINGS
January 19, 1988	First Amended Answer and Counterclaims of Defendants The LTV Corporation and LTV Steel Company, Inc. filed.
January 20, 1988	Motion of Banctexas Dallas to intervene granted.
January 29, 1988	Plaintiffs PBGC's Notice of Motion and Motion for Summary Judgment filed.
February 1, 1988	Motion of Miller and Shaffer to Intervene individually and as representatives of pension plan participants granted and filed.
February 1, 1988	Answer of LTV Bank Group filed.
February 1, 1988	Stipulation and Order authorizing The Indenture Trustees to intervene and accepting their Proposed Answer as their initial pleading filed.
February 3, 1988	Complaint by Miller and Shaffer for intervention as class action filed.
February 5, 1988	Motion of LTV Opposing Intervention of Miller and Shaffer denied.
February 8, 1988	Intervenor Complaint of the Official Committee of Equity Security Holders of the LTV Corporation with cross claim filed.
February 11, 1988	Amended Intervenor Complaint of the Official Committee of Equity Security Holders of The LTV Corporation with cross claim filed.
February 16, 1988	Answer of Defendant LTV filed.
February 27, 1988	Response and Answer of Banctexas Dallas filed.

DATE	PROCEEDINGS
February 29, 1988	Motion for leave for Solidarity USA Inc, an organization of LTV Steel retirees, to file a brief Amicus Curiae in support of Pension Benefit Guaranty Corporation's Motion for Summary Judgment on its Complaint filed.
February 29, 1988	Answer of the Pension Benefit Guaranty Corporation to First Amended Counterclaims of The LTV Corporation and LTV Steel Company, Inc. and the Official Committee of Unsecured Creditors of the LTV Corporation filed.
February 29, 1988	Answer of The LTV Corporation and LTV Steel Company filed.
March 15, 1988	Answer of the Pension Benefit Guaranty Corporation to Counterclaims of the Parent Subcommittee of the Official Committee of Unsecured Creditors of the LTV Corporation filed.
April 4, 1988	Answer of Pension Benefit Guaranty Corporation to amended cross claim filed.
June 22, 1988	Opinion of Judge Sweet filed.
August 19, 1988	Pension Benefit Guaranty Corporation's Notice of Motion for an Order for Entry of Judgment filed.
September 8, 1988	Grant of Motion for an Order for Entry of Judgment filed.
September 12, 1988	Judgment in favor of The LTV Corporation and LTV Steel Company, Inc. filed.
October 6, 1988	Pension Benefit Guaranty Corporation's Notice of Appeal filed.

UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

Nos. 88-6244, 88-6246, 88-6252

CHRONOLOGICAL LIST OF RELEVANT DOCKET ENTRIES

DATE	PROCEEDINGS
October 18, 1988	Copy of District Court docket entries and Notice of Appeal on behalf of Appellant Pension Benefit Guaranty Corporation filed.
October 18, 1988	Notice of Appeal on behalf of David Miller and William Shaffer filed.
October 25, 1988	Cross-Notice of Appeal on behalf of LTV Bank Group filed.
November 14, 1988	Record on Appeal filed.
November 22, 1988	Joint Appendix volumes 1-6 filed.
November 22, 1988	Exhibits to Joint Appendix volumes 1a, 1b-7 filed.
December 6, 1988	First Supplement to Record on Appeal filed.
December 20, 1988	Second Supplement to Record on Appeal filed.
January 13, 1989	Case heard before Van Graafeiland, Meskill and Miner, C.JJ.
January 17, 1989	Third Supplement to Record on Appeal filed.
May 12, 1989	Opinion and Judgment of the Court of Appeals for the Second Circuit.

DATE	PROCEEDINGS
May 12, 1989	Judgment filed.
September 22, 1989	Notice of Filing of Petition for writ of certiorari by Petitioner Pension Benefit Guaranty Corporation dated September 11, 1989 filed.
November 1, 1989	Certified copy of Order Granting Petition for writ of certiorari filed.

[LOGO]

THE LTV CORPORATION

December 10, 1986

To: Members of the Committee of Unsecured Creditors

From: R. L. Guyett

Enclosed is a copy of The LTV Corporation's 1987-1988 Operating Plan. You will note that several changes (most of which are not significant) have been made to the final plan from the presentation made to you last week in New York. The most significant revision, a balance sheet reclassification of receivables to cash in the final plan, increased 1987 and 1988 year-end cash by $22 million and $48 million, respectively. Additionally, a change in interest expense deemed accruable in Chapter 11 caused net income of LTV Aerospace and Defense Company to increase by $13.5 million and $14 million in 1987 and 1988, respectively.

Please direct your questions relative to the Plan to Malva Rabinowitz of Touche Ross & Co.

(A copy of the slides used in the New York presentation—with the above adjustments—will be sent under separate cover).

PRIVILEGED AND CONFIDENTIAL
SUBJECT TO CONFIDENTIALITY AGREEMENT
BETWEEN PBGC AND THE LTV CORPORATION

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

THE INFORMATION CONTAINED HEREIN IS PROVIDED TO YOU IN YOUR CAPACITY AS A MEMBER OF THE CREDITOR'S COMMITTEE OR THE BANK GROUP OF THE LTV CORPORATION AND ITS SUBSIDIARIES OR AS COUNSEL, ACCOUNTANT, OR CONSULTANT TO SUCH COMMITTEE OR GROUP. THE INFORMATION CONTAINED HEREIN IS NOT TO BE REPRODUCED, DISCLOSED TO ANY OTHER PERSON OR USED FOR ANY PURPOSE OTHER THAN IN YOUR CAPACITY AS A COMMITTEE OR BANK GROUP MEMBER OR COUNSEL, ACCOUNTANT, OR CONSULTANT TO SUCH COMMITTEE OR GROUP. WRONGFUL USE OF MATERIAL, NON-PUBLIC INFORMATION IN THE PURCHASE OR SALE OF SECURITIES CONSTITUTES A VIOLATION OF THE FEDERAL SECURITIES LAWS.

PRIVILEGED AND CONFIDENTIAL
SUBJECT TO CONFIDENTIALITY AGREEMENT
BETWEEN PBGC AND THE LTV CORPORATION

Note: All references in the document to "1986 forecast" financial data are according to The LTV Corporation's Financial Forecast dated October 1986 adjusted for a) September actual results and, b) the balance sheet impact of the third quarter 1986 special charge of $2.1 billion.

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

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THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

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SUMMARY

THE LTV CORPORATION AND SUBSIDIARIES 1987-1988 OPERATING PLAN

I. CONSOLIDATED FORECAST

Executive Summary

The following is a financial summary of The LTV Corporation's (LTV or the Company) 1987 and 1988 Operating Plan:

($ Millions)	1987	1988
Net Cash Flow from Operations	$ 288	$ 316
Revenues	$6,899	$6,801
Operating Income	$ 426	$ 411
Net Income	$ 403	$ 400
Property Additions	$ 404	$ 350
Current Ratio	3.26	3.61
Cash Balance	$ 740	$1,056

LTV operates in three distinct business environments. The organization of each *individual* operating unit and its relationship to the corporate entity are driven by the demands of its own particular industry. LTV Corporation is comprised of the following principal operations:

Operating Group	Business/Entity
Steel Group	LTV Steel Co., Inc. LTV Tubular Products Company L-S Electro Galvanizing (LSE)
Aerospace and Defense Group	Aircraft Products Group (APG) Military Aircraft Commercial Aircraft Modernization Support
	Missiles and Electronics Group (M&EG) AM General Missiles Division Sierra Research
Energy Products Group	Distribution and Production Equipment Drilling Equipment Oil States Industries Division

Traditionally, LTV has referred to its "operating groups" in reporting consolidated operating results. This presentation contains references to both LTV "operating groups" and to specific "legal entities" which comprise the LTV family of companies. Legal entity data is provided to assist those creditors whose interest is in a specific LTV legal entity.

The LTV Steel Group (LTVS) produces commodity type products in a highly competitive industry that is driven primarily by levels of GNP growth and automobile production. LTV Energy Products Company (LTVEP), while also operating in a commodity-like environment, serves a market which will vacillate depending on changing world energy needs and international political forces. LTV Aerospace and Defense Company (LTVAD) is primarily affected by the level of national defense spending and the health of the commercial aircraft industry. However, because LTVAD produces a broad range of "high" and "low" technology items and parts for current *and* replacement products, it is less susceptible to cyclical macroeconomic variables.

In response to changing industry and macroeconomic environments, LTV recently reorganized certain of its operating units into a more efficient structure. These changes are discussed more fully as the individual groups are addressed.

As part of its ongoing strategic planning and analysis the Company has prepared a two year operating plan. Historically, the Company's Plan has covered one year. The enclosed Operating Plan for the years 1987 and 1988 is prepared and presented in part for the following additional purposes:

—To present a reasonable two-year plan to the creditors and other constituencies with a vested interest in LTV's reorganization.

—To demonstrate the initial effects of the Chapter 11 filing.

—To set attainable goals and targets for LTV and its operating units and to describe the strategies that LTV intends to follow to accomplish these goals; certain operating strategies are still being developed, particularly as they may be affected by opportunities provided by the bankruptcy code.

—To provide an estimate of the operating results and cash flow that these operations are expected to generate.

Environment and Assumptions

Different aspects of the macroeconomic environment influence LTV's businesses. *Steel shipments and prices* are most greatly affected by GNP growth, steel imports, automobile production and aggregate domestic capital spending; *energy equipment sales*, by inflation, oil prices and OPEC policy; and *aerospace and defense contracts and awards*, by GNP, defense spending levels and commercial aircraft prospects. Forecasts for and explanations of the impact of each of these items are discussed in detail in the following sections. Steel sales which are cyclical are most sensitive to changes in forecast variables and are, therefore, the most difficult to project.

Other assumptions underlying the Plan are as follows:

—No asset sales are included in the Plan for 1987 or 1988.

—No payments to the Steel and Energy defined benefit pension plans are assumed. Pension accruals are recorded for current service only.

—Interest expense during 1987 and 1988 has been accured only on debt which has been preliminarily evaluated as fully or over secured. The Plan assumes that no interest will be paid during 1987 and 1988, except for interest on the bank debt

as provided for in the proposed Debtor in Possession financing recently negotiated with the Company's bank group.

—The Plan includes $1 million per month of bankruptcy related expenses.

—The Plan assumes no major changes in existing bankruptcy law.

—Interest income at a rate of 6% on the average monthly free cash balances has been included in the Plan.

Financial Results

Net Sales and Operating Income (Exhibit A)

The 1987 Plan anticipates $426 million of operating income on sales of $6.9 billion. The following table summarizes these amounts by group and compares them with forecast 1986.

	($ Millions)			
	Net Sales		Operating Income	
	1987 Plan	1987 B/(W) Than 1986	1987 Plan	1987 B/(W) Than 1986
Group Operations				
Steel	$4,125	$(299)	$268	$268
Aerospace and Defense	2,559	94	160	43
Energy Products	222	(79)	(2)	37
Eliminations	(7)	(1)	—	—
Total	$6,899	$(285)	$426	$348

The 1987 net sales and revenues of $6.9 billion represent a 4% decrease from 1986. Most of the anticipated Steel Group decrease is due to lower apparent domestic demand and the downward pressure on prices resulting from the overcapacity among domestic and world producers.

The operating income for 1987 is projected to be $426 million, $348 million better than the 1986 forecast. LTV Steel's 1987 operating income is expected to be $268

million better than forecast 1986 due primarily to full year realization of certain costs avoided in the Chapter 11 environment and the avoidance of certain income statement costs and expenses resulting from the 1986 special charges, partially offset by lower shipments and selling prices. LTVAD operating income is expected to be $43 million better than forecast 1986 due primarily to the Hummer cost adjustment of $35 million recorded in 1986. Higher MLRS and ATACMS sales will be substantially offset by lower B-1B and ADP's program sales. The Energy Products' operating loss is expected to be $37 million better than forecast 1986 due primarily to reductions in operating costs and the benefit from the 1986 write-down of unprofitable assets and product lines.

Interest and Other Expense (Exhibit D)

	($ Millions)		
	Forecast	Operating Plan	
	1986	1987	1988
Interest Expense	$187	$44	$46
Interest Income, Bankruptcy Expense and Other	7	(25)	(39)
Total Expense (net)	$194	$19	$ 7

Net interest and other expenses are expected to be $19 million in 1987, $175 million lower than 1986. The improvement is primarily due to limited interest expense accruals (according to bankruptcy procedures) and higher interest income due to higher cash balances, partially offset by estimated bankruptcy expense.

Consolidated Cash Flow From Operations (Exhibit F)

Net consolidated cash generation from operations is expected to total approximately $288 million and $316 million in 1987 and 1988, respectively. The following table summarizes the 1987 (quarterly) and 1988 cash flow of Exhibit F by major legal entities. Additional cash flow information is provided in the subsequent sections.

	($ Millions)					
	1987-1988 Operating Plan					
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year 1987	Year 1988
Cash Generated/(Used)						
LTV Steel Company, Inc.	$83.2	$105.4	$74.5	$ 7.3	$270.4	$234.5
LTV Steel Tubular Co.	9.7	(1.6)	(1.9)	(6.0)	0.2	(9.0)
LTV Aerospace and Defense Co.	(30.8)	(10.2)	(17.1)	64.3	6.2	79.8
LTV Energy Products Co.	(1.3)	(0.6)	0.6	7.1	5.8	(2.1)
*LTV Parent and Other	(5.2)	1.0	(3.5)	12.7	5.0	12.8
	$55.6	$94.0	$52.6	$85.4	$287.6	$316.0

* Includes LTV Sales Finance.

LTV Steel Company, Inc. is expected to generate cash during 1987 of $270 million primarily reflecting operating profits, depreciation and a decrease in working capital in excess of capital expenditures. LTV Aerospace and Defense Company expects to generate $6 million of cash reflecting operating income of $160 million and depreciation which are substantially offset by increased inventory requirements and capital expenditures. LTV Energy Products Company plans to generate approximately $6 million of cash.

1988 Operating Plan (Exhibit C)

The 1988 Plan anticipates $411 million of operating income on sales of $6.8 billion, both of which are slightly lower than the expected 1987 results. The Steel Group anticipates a continued downward trend in selling prices caused by global overcapacity to erode both sales and operating income. LTVAD also expects lower sales and operating income in 1988 primarily due to the completion of the B-1B program at APG. The Energy Products Company expects a moderate increase in sales and operating income in 1988 caused by the anticipated increase in oil prices combined with the depletion of the existing natural gas surplus.

The 1988 Plan expects the funds generated through operations to exceed corporate requirements by $316 million. LTV Steel Company, Inc. expects to generate cash of $234 million in 1988 which is a 13% decrease from the 1987 level, due primarily to lower operating profits and lower cash generated from working capital partially offset by lower capital expenditures. LTVAD anticipates an $80 million generation of cash in 1988, a $74 million improvement over 1987 which is primarily due to lower use of cash in working capital and a decrease in property additions. LTV Energy Products Company anticipates $2 million cash usage in 1988.

LTV Projected Consolidated Tax Position

At the beginning of 1986 and 1987, it is estimated that LTV will have available the following net operating loss carryforwards:

	($ Billions)	
	For Tax Purposes	For Book Purposes
As of January 1, 1986	$2.3	$1.3
As of January 1, 1987	$2.7	$4.0

The Tax Reform Act of 1986 provides for a 15 year carryback by steel companies of their investment tax credit carryforwards existing at December 31, 1986. Under the law, the LTV consolidated federal income tax group should receive a federal income tax refund of approximately $150 million. This refund has *not* been included in this Plan pending resolution of the potential IRS claims arising out of the pension waiver denial.

Major Risks and Opportunities

Risks inherent to the steel industry present the greatest degree of uncertainty to LTV in achieving this Plan. These include:

—Weaker than expected economic growth forcing additional downward pressure on prices.

—Lower than expected automobile vehicle production, as automotive is the largest steel consuming market and LTV Steel is the leading supplier to that market.

—An unexpected work stoppage at any LTV Steel plant.

—USX predatory pricing at the conclusion of their strike.

Risk issues in LTVAD include:

—Keeping Hummer production within its current cost structure.

—Not achieving a major award on the A-7 Strikefighter and an MLRS international program.

The risk issues for LTVEP include:

—Oil and gas prices may not stabilize as projected.

—Inability to regain lost market share and favored position with suppliers and vendors.

—OPEC's ability to hold the established production quotas.

Because the Company has attempted to present a realistic forecast to its constituencies, the Plan does not include certain opportunities which, if realized, could generate additional cash flows for LTV. Possible opportunities which could improve results and/or cash flow over the 1987 Plan are:

—Stronger than expected GNP growth.

—Cost reductions in excess of planned levels, including on-going LTV Steel programs involving "greenfield manning," higher yield and increased direct rolling/hot charging. In LTVAD, favorable cost performance on the B-1B could improve Aircraft Products' income.

—Continued or new work stoppages at major competitors.

—A cold winter which could spur gas well drilling in the spring of 1987, reducing the expected seasonal softness of the oil/energy market.

—Disposals of non-operating LTV Steel or LTV Energy units.

—Improvement in the steel market for bar products.

EXHIBIT A

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

1986 SUMMARY OPERATING RESULTS
($ Millions)

	Actual		Forecast	
	1/1 to 7/16/86	7/16 to 9/30/86	4th Qtr.	1986 Year *
Sales & Revenues				
Steel Group	$2,514.3	851.1	1,058.4	4,423.8
Aerospace and Defense Group	1,175.1	595.1	694.5	2,464.7
Energy Products Group	179.7	43.5	78.3	301.5
Eliminations	(3.6)	(0.5)	(2.0)	(6.1)
Total	$3,865.5	$ 1,489.2	$1,829.2	$ 7,183.9
Operating Income/(Loss)				
Steel Group	$ (86.3)	$ 51.6	$ 34.4	$ (0.3)
Aerospace and Defense Group	39.1	34.9	43.4	117.4
Energy Products Group	(22.1)	(9.3)	(7.4)	(38.8)
Total	(69.3)	77.2	70.4	78.3
Interest & Other Expense	(168.6)	(11.4)	(14.1)	(194.1)
Pretax Income/(Loss) Before Taxes & Special Charges	(237.9)	65.8	56.3	(115.8)
Special Charges	(535.0)	(2,100.0)	—	(2,635.0)
Income Tax (Charge)/Credit	8.8	—	(1.1)	7.7
Net Income/(Loss)	$ (764.1)	$(2,034.2)	$ 55.2	$(2,743.1)

* The 1986 forecast results are the results provided in October 1986 in the Financial Data for The LTV Corporation and updated for September actual results including the $2.1 billion Special Charge.

EXHIBIT B

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

EXECUTIVE SUMMARY
($ Millions)

	Forecast	Operating Plan	
	1986	1987	1988
Financial Position at Year-End			
Cash and Short Term Securities	$ 454	$ 740	$1,056
Working Capital	1,719	1,900	2,165
Total Assets	5,454	5,885	6,239
Property, Plant & Equipment (net)	2,668	2,842	2,944
Deferred Liabilities Pursuant to Chapter 11	6,097	6,097	6,097
Shareholders' Deficiency	(2,050)	(1,647)	(1,247)
Other Financial Information			
Ratio of Current Assets to Current Liabilities	3.26	3.26	3.61
Property Additions	$ 208	$ 404	$ 350
Operating Leases	$ 20	$ 55	$ 68
Operating Statistics			
Steel—Industry Shipments (Million Tons)	69.7	67.9	67.9
LTV Group Shipments (000 Tons)	9,260	8,693	8,657
Market Share	13.3%	12.8%	12.8%
LTV Raw Steel Production (Million Tons)	11.1	10.1	10.0
Aerospace and Defense—New Orders ($ Billions)			
Missiles and Electronics Group	$1.6	$1.7	$1.5
Aircraft Products Group	0.9	0.8	0.7
Total	$2.5	$2.5	$2.2
—Backlog ($ Billions)			
Missiles and Electronics Group	$3.0	$2.5	$2.2
Aircraft Products Group	1.1	0.9	0.9
Total	$4.1	$3.4	$3.1
Energy—U.S. Rigs in Operation (Average)	925	750	825

EXHIBIT C

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

SUMMARY OF CONSOLIDATED OPERATIONS
($ Millions)

	1987 Operating Plan					
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
NET SALES & REVENUES						
Steel Group	$1,088.4	$1,075.0	$ 996.1	$ 965.2	$4,124.7	$4,079.8
Aerospace and Defense Group	644.2	632.7	621.0	661.3	2,559.2	2,491.8
Energy Products Group	53.8	51.1	54.9	62.6	222.4	237.1
Eliminations	(1.8)	(1.8)	(1.8)	(1.8)	(7.2)	(7.2)
Net Sales & Revenues	$1,784.6	$1,757.0	$1,670.2	$1,687.3	$6,899.1	$6,801.5
OPERATING INCOME/(LOSS)						
Steel Group	$ 65.9	$ 79.6	$ 61.7	$ 60.7	$ 267.9	$ 251.9
Aerospace and Defense Group	40.4	39.3	39.6	40.5	159.8	157.3
Energy Products Group	(1.3)	(0.9)	(0.5)	1.1	(1.6)	2.1
Operating Income	105.0	118.0	100.8	102.3	426.1	411.3
Interest Expense	(10.6)	(10.9)	(11.0)	(11.2)	(43.7)	(45.8)
Interest Income	9.0	9.5	10.6	11.6	40.7	54.5
Other *	(4.0)	(4.0)	(4.1)	(4.0)	(16.1)	(16.1)
Income Before Taxes	99.4	112.6	96.3	98.7	407.0	403.9
Taxes on Income	(1.0)	(1.0)	(1.0)	(1.0)	(4.0)	(4.0)
Net Income	$ 98.4	$ 111.6	$ 95.3	$ 97.7	$ 403.0	$ 399.9

* Includes estimated Chapter 11 expenses of $1 million per month.

EXHIBIT D

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

INTEREST (INCOME)/EXPENSE AND OTHER
($ Millions)

	Operating Plan 1987	1988
INTEREST EXPENSE		
Interest on Long-Term Debt	$17	$17
Interest on Bank Debt	35	35
Other Interest	3	2
Capitalized Interest	(11)	(8)
Total	44	46
ADMINISTRATIVE EXPENSE/(INCOME NOT ALLOCATED TO OPERATING INCOME		
Interest Income	(41)	(55)
Bankruptcy Expense	12	12
Other	4	4
Total	(25)	(39)
TOTAL INTEREST (INCOME)/EXPENSE & OTHER	$19	$ 7

EXHIBIT E

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING POSITION

STATEMENT OF CONSOLIDATED FINANCIAL POSITION
($ Millions)

	Forecast 12/31/86	Operating Plan 12/31/87	12/31/88
CURRENT ASSETS			
Cash and short-term securities	$ 454	$ 740	$ 1,056
Receivables (net)	844	809	822
Inventories	1,100	1,110	1,036
Other current assets	81	80	80
Total Current Assets	2,479	2,739	2,994
CURRENT LIABILITIES			
Notes payable to banks	2	—	—
Accounts payable	246	261	240
Pre-petition current	139	63	63
Other accrued liabilities	370	512	523
Income taxes payable	2	2	2
Current maturities of long-term debt	1	1	1
Total Current Liabilities	760	839	829
WORKING CAPITAL	1,719	1,900	2,165
NONCURRENT ASSETS			
Property, plant and equipment (net)	2,668	2,842	2,944
Investments and other noncurrent assets	307	304	301
Total Assets Less Current Liabilities	4,694	5,046	5,410
LESS NONCURRENT LIABILITIES			
Plant closing reserves	317	242	190
Minority interest and other	226	250	266
Pre-petition deferred	6,097	6,097	6,097
Total Noncurrent Liabilities	6,640	6,589	6,553
SHAREHOLDERS' DEFICIENCY			
Redeemable preferred stock, including liquidating preference	104	104	104
Excess of liabilities and redeemable preferred stock over assets	$(2,050)	$(1,647)	$(1,247)
Current Ratio	3.26	3.26	3.61

EXHIBIT F

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

STATEMENT OF CONSOLIDATED CASH FLOW
($ Millions)

	Forecast 1986	Operating Plan 1987	Operating Plan 1988
SOURCES OF CASH			
Net Income/(Loss)	$(2,743.1)	$403.0	$399.9
Depreciation and Amortization	239.6	236.2	239.7
Special Charges	2,635.0	—	—
Stock Issuable for Employee Costs *	23.2	18.8	18.8
Net Cash from Working Capital Items Other Than Cash, & Current Maturities of Long-Term Debt	159.9	107.4	51.0
Cash Generated from Operations After Working Capital	314.6	765.4	709.4
Stock Issued For:			
Payment of Interest on Long-Term Debt	14.3	—	—
Exchange for Debt	14.0	—	—
Employee Benefit Plans	17.0	—	—
Disposition of Assets Hold for Sale	250.2	—	—
Total Sources of Cash	610.1	765.4	709.4
USES OF CASH			
Property Additions	208.4	404.0	350.0
Other Uses/(Sources)—(net)**	4.2	73.8	43.4
Total Uses	212.6	477.8	393.4
Net Sources of Cash from Operations Before Debt Changes	397.5	287.6	316.0
Debt (Repayment)/Borrowing	44.6	(1.7)	—
Net Increase in Cash Position	$ 442.1	$285.9	$316.0

* As per current labor agreement.

** Includes projected costs of non-operating steel units charged to reserve accounts of $52.4 million in 1987 and $47.2 million in 1988.

EXHIBIT G

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

SUMMARY OF PRE-PETITION DEFERRED LIABILITIES
($ Millions)

	Forecast 12/31/86	1987 Operating Plan 3/31/87	1987 Operating Plan 6/30/87	1987 Operating Plan 9/30/87	1987 Operating Plan 12/31/87	12/31/88
Bank Debt-Deferred						
LTV Aerospace Defense Company	$ 225	$ 225	$ 225	$ 225	$ 225	$ 225
LTV Aerospace Export Financing	10	10	10	10	10	10
LTV Sales Finance Company	300	300	300	300	300	300
LTV Steel	134	134	134	134	134	134
Total	669	669	669	669	669	669
Other Debt-Deferred						
LTV Parent	912	912	912	912	912	912
LTV Steel Company, Inc.	906	906	906	906	906	906
LTV Aerospace/Defense Company	16	16	16	16	16	16
LTV Energy Products Company	2	2	2	2	2	2
LTV Holdings Company	30	30	30	30	30	30
LTV International	40	40	40	40	40	40
Republic Overseas Finance	90	90	90	90	90	90
Total	1,996	1,996	1,996	1,996	1,996	1,996
Other Pre-Petition Deferred Liabilities	3,432	3,432	3,432	3,432	3,432	3,432
Total Pre-petition Deferred Liabilities	$6,097	$6,097	$6,097	$6,097	$6,097	$6,097

EXHIBIT H

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

DETAIL OF PRE-PETITION DEFERRED LIABILITIES
BY MAJOR LEGAL ENTITY
($ Millions)

	LTV Consol.	LTV Steel Co., Inc.	LTV Energy Prod. Co.	LTV Aerospace and Defense	LTV Tubular Prod. Co.	All Other
Bank Debt	$ 669.4	$ 134.4	$ —	$235.0	$ —	$ 300.0
Accounts Payable	515.3	465.6	22.6	8.7	12.2	6.2
Accrued Interest	59.6	24.3	0.1	2.5	—	32.7
Accrued Pension Claims	2,246.8	2,063.8	20.6	0.2	64.4	97.8
Accrued Other Benefits	141.9	137.9	0.1	2.4	0.6	0.9
Plant Rationalization Costs	225.2	192.5	31.1	—	—	1.6
Long Term Debt	1,996.0	905.9	1.7	16.4	0.3	1,071.7
Long Term Debt-Interco.	—	—	311.6	0.8	37.5	(349.9)
Other Liabilities and Deferrals *	242.8	225.3	20.4	26.4	38.9	(68.2)
Total	$6,097.0	$4,149.7	$408.2	$292.4	$153.9	$1,092.8

* Includes other pre-petition intercompany accounts.

STEEL

THE LTV CORPORATION AND SUBSIDIARIES 1987-1988 OPERATING PLAN

II. LTV STEEL GROUP

Overview

LTV Steel was formed in 1984 upon the merger of Jones and Laughlin Steel Corporation (LTV's subsidiary) and Republic Steel Corporation and includes the following entities:

—LTV Steel Company, Inc.
—LTV Steel Tubular Products Company
—L-S Electro Galvanizing (LSE)
—LTV Holdings

The following pages summarize the 1987-1988 Operating Plan for the LTV Steel Group.

Environment

Macroeconomic Assumptions

In forecasting macroeconomic conditions for this plan, LTV Steel's primary source of data and modeling was Data Resources, Inc. ("DRI"). In addition, LTVS reviewed a wide variety of other economic forecasts and spent time talking (and listening) to its customers. This along with the groups own industry expertise was used to forecast how the macroeconomic environment ultimately will affect the level of domestic steel shipments and demand for individual products.

The overall economy is assumed to exhibit the same sluggish growth over the next two years as has been experienced during 1986. Real gross national product is expected to grow 2.7% in 1987 and 3.0% in 1988. U.S. industry is likely to continue to suffer from:

—large trade deficits
—high import levels
—excess capacity
—drastic cutbacks in energy markets

Although the trade weighted value of the dollar has declined more than 20% from its 1985 peak, trade response may lag by about a year. Imports are likely to remain higher than the President's Voluntary Restraint Agreement (VRA) target levels as foreign sources struggle to maintain market share even at the cost of lower gross margins. The on-going strength of the dollar relative to currencies of major steel exporters such as Canada and South Korea represents a continued difficult situation for the steel industry. The prime rate is forecast at 8% in 1987 and 7.7% in 1988. Inflation is expected to remain at historically low levels as indicated by a GNP deflator of 2.5% to 3.5%. This Plan does not forecast a recession. LTVS believes GNP must grow at about 4% per year to keep steel consumption static. With projected GNP growth below that level and with disincentives for investment created by the negative impacts of tax reform (which promises limited growth in capital spending), domestic consumption of steel (shipments plus imports less exports) is forecast to decline from 89.3 million tons in 1986 to 87.1 million tons in both 1987 and 1988. The VRA program should limit direct steel imports to about 23% of apparent consumption, resulting in domestic steel shipments of 67.9 million tons in both 1987 and 1988. As Exhibit Q indicates, this forecast is consistent with the forecasts of other economic studies.

Steel Industry Assumptions

Important steel industry indicators suggest that major steel markets will also exhibit mostly sideways to slightly downward levels of activity. These markets include automotive, housing, appliance, energy, conversion and containers and packaging.

Automotive represents the largest steel consuming market, accounting for almost 18% of mill shipments in 1985 (about 29% of LTVS shipments). Total car sales during the Plan period are expected to remain around 11 million units. However, the domestically produced portion of those 11 million units (including production of Japanese companies in the U.S.) will likely decline to 7.6 million units by 1988 from 8.3 million units in 1985. Housing starts will also be on a slowly declining trend to 1.7 million units by 1988, although that level of starts is still higher than has been typical since 1977-1978. The relative strength in housing construction coupled with on-going strength in consumer spending should contribute to favorable levels of activity among appliance manufacturers. The highly volatile U.S. refiner's acquisition price for crude oil is expected to stabilize in the $16 to $17 per barrel range. At these levels there is limited incentive for U.S. petroleum producers for exploration, drilling and production. Therefore, energy markets are likely to remain weak. Demand for steel in conversion and containers and packaging markets should remain stable. Exhibit R is a summary of historical and forecast steel macroeconomic indicators.

This Plan assumes a labor settlement at USX in the near term.

Continued Steel Rationalizations

Worldwide excess steelmaking capacity is estimated to be over 200 million tons, about 30 million tons of which is in the U.S. As excess domestic steel industry capacity competes for volume, a continuation of recent steel industry trends is expected. Major mills will probably continue to de-integrate through spin-offs, ESOPs, sales of individual units to management or closings followed by reopenings under independent ownership. The formation of additional partnerships and joint ventures is likely. Mini mills will probably continue to expand both their

aggregate market share as well as their product line capabilities. Within this environment, prices are likely to continue to deteriorate with "list price" not being relevant. Long-term purchasing contracts are expected to become more common among end users, while growth of the service center segment (which generally purchases under shorter lead times) should slow, although the share of domestic shipments moving through these centers will probably remain at record high levels of 24% to 25%.

Macroeconomic Risks and Opportunities

The major macroeconomic risks that would represent a weaker than anticipated environment for steel are:

—Deeper than projected decline in sales of domestically produced automobiles.
—Stronger than expected disincentives from tax reforms.
—The possibility that the economy could slip into a recession.
—GM or other automaker strike.

The major macroeconomic opportunities that would represent a stronger than anticipated environment for steel are:

—Stronger than expected GNP growth.
—Idlings of capacity by other steelmakers.
—Favorable government policy initiatives.

LTVS Strategies

Overview

The Steel Group's overall goal during 1987 and 1988 will be to achieve profitability and a positive cash flow while identifying the optimal core around which it plans to restructure and reorganize. Cost reductions will continue to be aggressively pursued. Commercial (price) strategies implemented immediately after the filing were designed to *stabilize* commercial relationships as rapidly

as possible. During the plan period LTVS will not reduce prices in an attempt to increase market share. Rather, the group intends to maintain market share by being competitive in price with major competitors while attaining industry leadership in quality, productivity and service. Overall customer reaction to the reorganization process thus far indicates that no decline in commercial relationships should occur so long as LTV Steel's quality and service remain good and prices are competitive. Based on customer comments, LTVS anticipates no major customer defections.

Flat Rolled Strategy

The flat rolled products division intends to pursue its current strengths in the U.S. automotive and appliance markets where it already enjoys market leadership position. This strategy will involve maintaining the group's current leadership position at Japanese owned U.S. located auto plants, through quality and service and in coated products, primarily by capitalizing on L-S Electro Galvanizing (LSE). According to Ford Motor Company, LSE has had "the best startup" of any domestic electrogalvanizing line. Technical selling teams are being organized to support a strategy of increasing sales of higher value products to end user markets. Similarly, independent blankers will be selected and managed as an additional resource in promoting end user sales. In tin mill products where LTV Steel's market share has been growing, the programs already in place should continue to succeed and allow the flat rolled division to take advantage of competitors' problems and increase its participation via quality, service and competitive pricing. Focused capital spending in conjunction with these strategies will enable the flat rolled group to maintain its position as a low cost domestic producer which is competitive with most imports in the U.S. market and recognized as an industry leader in quality, service and delivery.

Bar Products Strategy

Bar products' overall strategy is to capitalize on its current position as the country's largest bar producer, recognized as one of the premium quality suppliers. With the recent idling of most of the Chicago plant, the bar products division combines 100% electric furnace melt with both bloom and billet continuous casting capability and top and bottom ingot pouring all at its Canton facility. Intense cost reduction in all areas has been, and will remain, bar's foundation strategy to generate positive cash flow. A dedicated bar management (which includes the commercial function) has been established and will be a key to building on quality and service reputations. LTV will minimize its bar-related capital spending in the Plan period. The bulk of this spending will be in support of the profitable, market leading special metals unit. Simultaneously with the previously mentioned efforts, opportunities for joint ventures or for the sale of other units will be explored.

Tubular Products Strategy

Tubular's Campbell seamless mill was recently idled and its inventories will be converted into cash. This world class mill has been adequately "mothballed" to allow for either a restart or an enhanced sales value, though either event is likely to occur beyond the time horizon of this plan. Intense cost reduction efforts will continue to enhance the competitiveness of remaining tubular units. The specialized sales force will continue using its technical capabilities to emphasize target account technical selling to OEM customers of the steel and tubes unit and to line pipe end user customers of the electric welded unit. Service will be used as the primary differentiating factor for sales of standard electric welded pipe and commodity type steel and tubes applications. This service will involve maintaining "the right inventory in the right place" to improve lead times and delivery performance.

Marketing Plan

Overview

This two year Plan reflects participation levels based largely on strategies already in place. Thus market shares for most products are projected to remain relatively close to 1986 mid-year levels.

Flat Rolled Share

Flat rolled share (excluding tin) is expected to be 17.2%, only a slight increase from the 1985 level of 16.9%. This increase should occur in cold rolled and galvanized sheet steel, high margin product areas. Volume for the new electrogalvanizing line is viewed not as incremental but as a substitute for current cold rolled or hot dip galvanized volume. Tin mill products at LTVS have enjoyed a fairly steady increase in industry participation level, increasing from the 13% range in early 1985 to 15.2% for the full year 1985. Further increases to 17.5% in 1987 and 18.0% in 1988 are projected—higher than 1985 levels but consistent with the August 1986 year-to-date participation level of 17.5%.

Bar Share

Bar participation (excluding structural products) is forecast at 13.2%. Slight changes in mix are forecast based on recent facilities idlings and LTV Steel's strategy of emphasizing sales of higher value alloy products. Projected shares by product (compared to August 1986 year-to-date) are as follows:

	1987/1988 Projected Share	August 1986 Y-T-D Actual
Hot rolled bar	13.9%	13.8%
Cold finished bar	20.4	21.2
Wire	1.7	2.9
Stainless bar	7.6	5.8
Bar products	13.2%	15.0%
Structural products	3.4%	2.9%

Changes within each category also reflect a general upgrading of mix to a higher percentage of alloy product which carries higher profit margins.

Tubular Share

In tubular products, electric welded pipe should achieve shares of 18% in 1987 and 20.2% in 1988, higher than the 1985 level of 17.6%, but below August 1986 year-to-date participation of 22.9%.

Volume

Using the preceding market shares and projected level of industry shipments, LTVS anticipated volumes by major product line are as follows:

	Annual Volume (Tons in Thousands)		
	Forecast	Plan	
	1986 *	1987	1988
Flat Rolled (Including Tin and LSE)	7,395.0	7,072.8	7,017.4
Bar	1,407.0	1,247.4	1,269.0
Tubular	388.0	372.7	371.0
Specialty	70.0		
Total LTVS	9,260.0	8,692.9	8,657.4

* Eight months actual plus four months forecast.

The projected annual shipments of almost 8.7 million tons of steel translate into a total market share of 12.8% (including LSE) for both 1987 and 1988.

Prices

Steel industry prices are cyclical but have exhibited a downward trend for a number of years. As was explained earlier, steel prices are expected to fall further due to a weak environment, excess domestic and world capacity, short-term cash generation programs at financially stressed competitors and the growing presence of "reconstituted" mills (such as Gulf States Steel and Weirton) which are able to maintain lower cost structures than most of the industry primarily through lower employment costs.

In this plan, projected 1987 prices generally represent a 1% decline from actual prices in the third quarter of 1986. Prices are assumed to decline further by an additional 1% in 1988 as compared to 1987.

Facilities Plan for Continuing Operations

Overview

LTV Steel's clear intention is to reorganize around those units which can develop a sustainable competitive advantage permitting them to generate operating profits and positive cash flows. Within this context, business units have been tentatively identified as "primary," "supplementary" or "non-operating."

Primary units are those which are expected to use their sustainable competitive advantage to generate positive cash flow through the foreseeable future. As such, these represent the core units around which the group expects to reorganize.

Supplementary units are those which should not be idled yet, but whose projected cash flows are insufficient or too uncertain to be considered as primary at this time. Additional analysis is necessary to develop firm conclusions and recommendations about whether and how these units could be made strong enough to be considered primary or whether and how some other disposition should be sought. The resolution of the supplementary units is a fundamental goal of the LTV Steel Group.

Non-operating units are those units which have been idled and are being prepared for disposition.

The following is a summary of the company's primary, supplementary and non-operating units:

Division	Primary	Supplementary	Non-Operating
Flat Rolled:	Indiana Harbor Hennepin Cleveland Tin (2 plants) Coke plants Ore and Lime Railroads	Warren Drainage Products (6 plants)	Pittsburgh Primary Thomas Coke 6 Coal Properties
Bar:	Canton Massillon CF Beaver Falls CF Gary CF Special Metals	Chicago 11" Mill Chicago Wire Mill Willimantic CF Aliquippa 14" Mill	Aliquippa Primary/ Coke Buffalo/Donner-Hanna Pittsburgh Bar Mills Chicago (balance) Remaining CF Plants
Tubular:	Steel & Tubes (5 plants)	Youngstown ERW Counce ERW	Campbell I.H. Seamless Chicago Seamless Aliquippa Seamless Aliquippa Welded Youngstown CSR

A paramount goal of the LTV Steel Group is stemming negative cash flows from non-operating units. The costs associated with the non-operating units fall primarily into two categories:

1) Costs of holding idle facilities (including taxes, utilities, environmental, security, etc.).
2) Costs of payments to terminated employees formerly employed by the idle units.

A newly established Asset Management Group under the direction of a General Manager has been formed to deal specifically with non-operating units. Responsibilities of this group include identifying, prioritizing and analyzing ways to maximize cash flows from non-operating units.

Flat Rolled Units

The flat rolled products division will build its future around its primary units. Indiana Harbor will require

two blast furnaces (H-3 and H-4) to be relined within the plan period to support planned output from the continuous caster of 305,000 tons per month. The H-4 reline, which has already been approved and started, will be completed in 1987. Cleveland requires one reline (C-6) within the period which, with currently operating blast furnaces, support the planned output from the Cleveland Plant of 225,000 tons per month through its continuous caster. "Variable" capacity will be supplied through ingots poured from the Cleveland East and West basic oxygen furnaces and the Cleveland West electric furnaces. Iron ore will be supplied from Empire, Erie and Northwest. Substantially all coal will be purchased on the open market (and consequently BCNR, Beatrice, Beckley, Nemacolin, Olga and Tuscaloosa are reflected as non-operating units).

Though the Warren plant has several attractive specialty product lines (e.g., terne and silicon steel) which currently generate attractive margins and occupies a favorable niche as a producer of high carbon and alloy steels, its future is clouded by capital needs for a blast furnace reline in mid-1988, generally aged equipment and small coil size. Sustainable competitive advantage and favorable cash flows for the plant are not certain and it is therefore considered a supplementary unit whose future must still be resolved. This Plan presumes that the blast furnace is not relined and that Warren steelmaking is idled in mid-1988, although finishing operations continue through the end of the forecast period. A decision to reline this furnace would have to be made by mid-1987.

Bar and Tubular Units

Relatively little in the way of changes in current operating configuration is anticipated for bar or tubular products. All units currently operating are projected to continue through the Plan period, although additional

analysis will be undertaken to develop final conclusions and recommendations concerning supplementary units.

Facilities Summary

A summary of the Steel Group's expected steelmaking configuration follows:

Coke: Coke operations will function at capacity from currently operable facilities at Chicago, Cleveland, Pittsburgh and Warren throughout the period. However, two of Pittsburgh's five available batteries will expire by early 1988 and three of Cleveland's five available batteries will expire by year-end 1988. Even with these reductions, LTVS will be self-sufficient in coke throughout the period with no outside purchases or sales planned. Generally, coke inventory will be maintained at a 30-day supply.

Coal: An LTVS strategy is to exit the coal business. All LTVS wholly-owned and jointly-owned coal properties are assumed idle throughout the plan period except for Beckley Coal and Olga Coal. LTVS' 50% interest in Beckley Coal is assumed sold prior to January 1, 1987 while Olga Coal, of which LTVS owns 53%, is assumed to be shutdown during the Plan period. The balance of LTVS' coal requirements is assumed sourced from third parties at market prices. Currently and in the plan, almost all of LTVS' coal requirements are being satisfied from third parties at spot market prices. No contracts beyond one-year duration are planned.

Ironmaking: The flat rolled operations reflect a six-blast-furnace operation throughout 1987 reduced to a four-blast-furnace operation by year-end 1988. Cleveland will reduce from three to two and the Warren blast furnace is assumed not to be relined. Indiana Harbor will maintain a two-blast-furnace configuration throughout the period but will switch from H-1 and H-3 to H-3 and H-4 with the reline of H-4. Prior to the H-4 start-up in mid-1987, purchased hot metal at the rate of 750 net tons of hot metal (NTHM) per day will supplement Indiana Harbor's iron requirement. The bar operations at LTVS will produce their raw steel requirement entirely from electric furnace production supplemented by steel purchases as required. Accordingly, no blast furnaces will operate in support of the bar business.

Ore: Requirements will be sourced from LTVS wholly-owned mines at Erie and Northwest Ore as well as from Empire, a joint venture in which LTVS is a 35% participant. Generally, Empire Ore will be used at Indiana Harbor and Erie Ore will be used at Cleveland and Warren. The output of Northwest Ore is scheduled as crude ore feed for Indiana Harbor's sinter plant. In 1987, Erie is expected to produce 6.4 million gross tons of iron ore pellets or at 80% of its capacity, while Empire will produce 8.0 million gross tons of iron ore pellets or at 100% of its capacity with LTVS taking 2.8 million gross tons. No pellets will be purchased during the Plan period.

Steelmaking: Basic oxygen furnaces will operate at Cleveland and Indiana Harbor throughout the Plan period and at Warren as long as iron production is available. Chicago's Q-BOP will remain idled. Cleveland's electric furnaces will operate throughout 1987-1988 except for the last half of 1987 because of anticipated slack market demand. Canton's electric furnaces will operate throughout the period. Pittsburgh's and Chicago's electric furnace shops will remain idled during this time frame.

Casters: By the 4th quarter 1987, Cleveland's caster will produce at the rate of 225,000 net tons per month and it will essentially maintain that performance thereafter. At Indiana Harbor, the caster will average 272,000 net tons per month in 1987 and 275,000 net tons per month in 1988. Production at Indiana Harbor peaks at 300,000 net tons per month in late 1988 reflecting increased caster

capacity resulting from the ladle metallurgy station capital expenditure. By late 1988, LTVS flat rolled operations will produce about 90% of its product from continuously cast slabs.

Capital Plan

Summary

The Steel Group's expenditures are considered necessary since LTVS had previously postponed a number of important projects in order to conserve cash. Capital spending averaged $480 million per year from 1979 through 1984, but was drastically reduced to an average of only $121 million per year in 1985 and 1986. Capital projects fall primarily into one of two categories: 1) those projects necessary to maintain operations and 2) those projects necessary to remain competitive and reduce costs. The proposed plan is consistent with the industry environment and LTVS strategies previously described. All expenditures are vital, either because of rapid cash paybacks or because customers have indicated that without these outlays LTVS will experience a loss of participation.

Projected capital expenditures are $282.3 million in 1987 and $230.0 million in 1988 (including rolls, capitalized interest and spending at consolidated subsidiaries).

Flat Rolled Capital

Capital spending for flat rolled represents $267.1 million in 1987 and $218.2 million in 1988 or almost 95% of total spending in each year. Capital spending for flat rolled is designed to:

—maximize cast slab production with four blast furnaces;

—meet market demands for improved flat rolled gauge tolerance;

—meet market demands for lower carbon steels with improved formability and more consistent properties;

—reduce operating costs; and

—meet environmental requirements.

Major projects include three blast furnace relines at Cleveland and Indiana Harbor (H-3, C-6 and the previously approved H-4), ladle metallurgy/vacuum degassing at Indiana Harbor, gauge control improvements at Cleveland and Indiana Harbor, galvanizing line improvements at Indiana Harbor and chrome plating (TFS) capability at Aliquippa tin.

The three blast furnace relines are necessary to maintain productive capacity at three of the four furnaces considered as the core of LTV Steel's future operations. The reline of C-6 will include an increase in its capacity to 4,000 tons per day utilizing fluxed pellets to maximize iron production in the four blast furnace mode (rather than five furnaces) in 1989. Total blast furnace spending in the two year plan period is $177.2 million.

Installation of ladle metallurgy/vacuum degassing at Indiana Harbor ($76.0 million) represents both a market driven and a cost reduction project that returns significant annual benefits. This project would be the first at any LTV facility and provide ultra low carbon sheet steel by ladle metallurgy/vacuum degassing, a common technology found in both Europe and Japan. Weirton Steel and Armco Steel's Middletown plant have ladle metallurgy/vacuum degassing facilities and Inland Steel is scheduled to bring their facility on stream in April 1987. In addition, both National and U.S.S. have ladle furnaces with the potential for retrofitting ladle metallurgy/vacuum degassing capability. The project provides Indiana Harbor with the ability to remain competitive in the production of extra clean deep drawing galvanized steels as well as electrical steels. Both are consistent with the strategies of remaining a leader in the automotive market, of supplying Japanese companies located in the U.S. and of emphasizing higher value products for

end users. The project results in continuous caster capacity increasing to 305,000 tons per month from 270,000 tons per month without any changes to the caster itself, thereby generating significant cost reductions.

Gauge control improvements planned for Cleveland and Indiana Harbor are required for LTVS to meet tightened automotive specifications for steels suitable for new high speed press lines. The $56.8 million expenditure, which represents most of the first phase of a longer term program lasting approximately through 1990, will provide gauge tolerances of ±1% at cold rolled sheet center line through 98% of the coil length. LTVS currently lags both domestic and international competitors in developing this capability which is absolutely necessary to remain a leading supplier to the automotive market. General Motors has required that these new restricted gauge tolerance specifications be available on steel provided for the 1988 model year. Most of LTV Steel's North American competitors have modernized their rolling facilities to meet these new requirements, thus threatening the group's position in the automotive market. In addition, Japanese and European steel companies have improved gauge and shape control methods which surpass any domestic producer's current capability.

Spending of $8.9 million at the Indiana Harbor #2 galvanizing line returns annual benefits of $13 million by increasing capacity 6,000 tons per month of over 60 inch wide material and eliminating the need for pre-anneal and pre-temper of exposed automotive drawing steel. Again, this project directly supports the strategy of maintaining a sustainable competitive advantage as a leading supplier of high value automotive steels.

Aliquippa tin lacks a facility to apply chromate coating (TFS) to tin mill products. Changes in market demand indicate the need for this capability to preserve participation at key accounts and to increase sales to sanitary can

producers by 9,400 tons per month. An expenditure of $9.5 million is projected to generate annual benefits of $12.5 million by 1989.

Bar and Tubular Capital

Capital spending for bar products totals $14.0 million in 1987 and $10.6 million in 1988. The program represents minimal spending to reduce costs at Canton and contains only one major project, an $8.1 million improvement to the mechanical forge press at the special metals unit. Special metals represents a "model" business unit in that it currently uses its acknowledged quality leadership to enjoy a commanding market share in a business area relatively free from imports and mini mills, which results in on-going positive cash flow. Protecting its competitive advantage through this expenditure will allow maintenance of market share as well as yield improvements and force reductions, generating annual benefits of $6.9 million.

Capital spending for tubular totals $1.2 million in both 1987 and 1988 and focuses primarily on complying with environmental requirements.

Financial Results

Assumptions

The 1987-1988 Plan results are based largely on a continuation of basic competitive strategies adopted immediately after filing for reorganization. The Plan represents a base from which the Steel group expects to improve through the development and implementation of strategic actions. The major assumptions incorporated into the Plan are summarized as follows:

—*Shipment levels*—1987 and 1988 industry shipments are estimated at 67.9 million tons. LTV Steel Group shipments are projected at 8.7 million tons in both periods or 12.8% of the market.

—*Selling prices*—1987 Plan prices generally represent a 1% decline from actual prices in the third quarter of 1986. Prices are assumed to further decline an additional 1% in 1988 from 1987 levels.

—*Facilities operations*—Relatively little in the way of change for bar or tubular products is projected. All units currently operating are projected to continue through the Plan period. Flat rolled products' Warren facility requires a blast furnace reline in mid-1988. This Plan presumes that the blast furnace is not relined and that Warren steelmaking is idled in mid-1988, although finishing operations continue through the end of the forecast period.

—*Capital spending*—Projected at $282.3 million in 1987 and $230.0 million in 1988, of which approximately 95% in both periods is for the flat rolled division.

—*Cost*—Certain benefits in the form of cost reductions generated thus far in the reorganization process have been included in the income and cash flow projections. These total approximately $25 million per month and include avoidance of executory contracts, non-accrual and non-payment of past service pension expense and reduced raw material costs. Projected costs *not* impacted by the filing represent an extrapolation of a recent historical period. Therefore, these costs are considered a proven, achievable base from which improvements are expected, although such improvements are not included in the Plan.

A number of other assumptions support the financial expression of the Plan. End-of-period balances for trade accounts receivable reflect 47 to 50 days of sales dollars. Post-petition accounts payable reflect roughly three weeks of trade credit and are assumed constant throughout the Plan. Normal payments and accruals are assumed for

payroll and sales and use taxes. In 1987, the Plan assumes normal accruals, but *no payments* for real estate, personal property and franchise taxes except for $20 million in the third quarter reflective of post-petition liabilities. In 1988, the Plan assumes normal accruals and payments for real estate, personal property and franchise taxes estimated at $50 million. Accident compensation accruals and payments are planned to continue on a normal basis for Ohio, Indiana and Illinois and for Federal Longshore workers where LTVS remains self-insured. Payments in all other states are a function of state insurance or private fund premiums.

No provision has been made for claims that may be entered with respect to the rejection of leases or executory contracts. As a debtor-in-possession, LTV Steel has the right, subject to bankruptcy court approval and certain other limitations, to assume or reject certain executory contracts and unexpired leases. Rejected executory contracts or unexpired leases are subject to a claim for damages for the breach thereof. It is not possible to quantify the amount of such claims at this time, and therefore, no provision has been made.

It is assumed that salaried defined pension contributions and pension costs for entities not filed under Chapter 11 are unaffected. The hourly current service pension is being accrued and is assumed paid in the amount of $21 million. Retiree insurance reflects current coverage with a cost of $92 million in 1987 and $104 million in 1988. Hourly payroll and benefit costs reflect approximately 38 million man hours (including steelworkers, mine workers, railroads, etc.) based on the current labor agreements. A $31 million profit sharing payment is assumed in April 1988 under the USWA Agreement.

1987 Net Sales (Exhibit O)

The Steel Group's 1987 annual operating plan is based on domestic industry shipments of 67.9 million tons, a

decrease of 1.8 million tons (3%) from the 1986 forecast of 69.7 million tons. The expected decrease in shipments is primarily due to the decreasing apparent domestic demand. While President Reagan's VRA Program has been effective in reducing import penetration from a six-month high of 29.3% in the last half of 1984 to an estimated 23% for 1986, imports are still significantly higher than the program's goal of 20.2%. Imports are expected to decline proportionately with U.S. mill shipments in 1987, remaining at 23% of apparent domestic demand.

1987 Steel Group sales are expected to decline $299.1 million from the 1986 forecast sales of $4.4 billion to $4.1 billion as shipments decrease 567,000 tons (6%) to 8,693,000 tons. Selling prices are expected to decline approximately 1% as the steel industry continues to experience excess capacity, high imports and declining consumption.

1987 Operating Income (Exhibit O)

The 1987 operating income is projected at $267.9 million. The flat rolled primary operations are the principal source of the operating income in 1987. Primary bar, tubular and LSE operating incomes are also contributors. Total Chapter 11 savings in the form of reduced costs have been estimated at approximately $25 million per month at the planned operating level. These savings and their estimated monthly value include:

	($ Millions)	
	Monthly	Annualized
Past Service Pension	$ 9.6	
Duquesne Light Contract	1.1	
Armco Coke Contract	1.6	
Reduced Coal and Ore Costs	12.5	
Total Operating Income Savings	$24.8	$297.6

Of the total Chapter 11 operating income improvements, it is estimated that over $200 million is reflected in the flat rolled primary operations in 1987.

1987 Cash Flow (Exhibits J & M)

Exhibits I through N present summary "legal entity" financial statements for the major entities which comprise the Steel Group. The cash flow before intercompany transfers for LTV Steel Company, Inc. is projected at $270.4 million for 1987. Cash flow for LTV Steel Tubular Products Company is expected to amount to $0.2 million.

The principal cash flow stems from the operating income plus depreciation of LTV Steel Company, Inc. less the capital expenditures needed to allow the Steel Group to remain competitive.

Interest expense is shown net of interest income.

Operating cash flows have been summarized in Exhibits S and T by the Primary, Supplementary and Non-operating units as discussed in the facilities overview.

1988 Operating Plan

The 1988 operating plan nearly mirrors the 1987 plan. Industry shipments are expected to remain at 67.9 million tons with the Steel Group maintaining a 12.8% share of the market with shipments of 8.7 million tons. Selling prices and resultant sales revenue are expected to decline slightly as domestic competition continues. The Steel Group's 1988 operating income is forecast at $251.9 million, a slight decline from the 1987 Plan operating income of $267.9 due primarily to the anticipated selling price deterioration.

The 1988 Plan reflects LTV Steel Company, Inc. cash flow of $234.5 million while sustaining a capital program of $228.8 million. LTV Steel Tubular Products Company is expected to generate negative cash flow of $9.0 million in 1988 with capital spending projected at $1.2 million.

Major Risks and Opportunities

Conditions that could result in a weaker or stronger than anticipated steel industry environment were discussed

earlier. Occurrence of any of these would likely manifest itself as increased or decreased volume and/or prices for LTVS. The financial projections in this Plan are extremely sensitive to both volume and price, a reality that is generally characteristic for any participant in the steel industry. Some very basic sensitivity analyses reveal the following upside/downside risks of the Plan to volume and price:

—a 1% change in average selling price generates approximately a $41 million change in operating income.

—a 1% change in volume from forecast shipment levels generates a change in operating income in the range of $8-$11 million depending on such factors as product mix, plants affected and timing of reductions.

Perhaps the most likely downside risk is a lower than expected auto build. With automotive the largest steel consuming market and LTVS the leading supplier to that market, LTV Steel's sensitivity to changes from forecast automotive levels is greater than that of other companies in terms of absolute volume.

—a 10% change in the level of auto build would induce a 1.8% change in the level of domestic steel industry shipments.

—a 10% change in the level of auto build would induce a 3.1% change in the level of LTVS shipments.

Thus a reduction of 780,000 units in 1987 auto build would likely reduce industry shipments 1.24 million tons and LTVS shipments 266,000 tons.

There are other risks and opportunities which continue to exist for LTVS. These are listed here in order to identify those factors which could influence projected financial performance.

Among the items with *upside potential* are:

—*Cost reductions*—A number of on-going programs could provide benefits in excess of those contained in the plan. These include "greenfield manning", yield improvements and increased direct rolling/hot charging.

—*Marketing programs*—A variety of programs could improve mix and/or increase market shares beyond levels in the plan. Chief among these is the recent establishment of a separate bar sales force.

—*Asset dispositions*—Although a group has been formed to deal with the non-operating units, none are forecast to be disposed of during the Plan period. Disposition of these units could reduce cash outflow and generate cash.

Additional *downside potential* exists regarding:

—*Increased imports by countries not covered* by the President's VRA Program—This along with the continued increase in *indirect* imports could cause lower industry volume and higher price concessions.

—*Unexpected work stoppages*—Any work stoppage at LTVS plants associated with or as a result of current labor negotiations or other circumstances would have a detrimental impact on financial performance.

—*Potential costs* associated with current retiree benefits which would not be covered by the PBGC in the event of pension plan termination.

—*Loss of key management*—Retention of highly skilled management represents a key need for LTVS.

In the event of weaker than expected industry environment leading to a lower than planned level of LTVS ship-

ments, the steel group's response would be scaled to the shortfall actually experienced. In flat rolled operations, downside response could be to:

—reduce output from most variable capacity—electric furnace teemed ingots at Cleveland West;

—idle Warren steelmaking sooner than contemplated in this Plan; or

—reduce output from remaining facilities by scaling back operations at other blast furnaces and basic oxygen melt shops.

Bar and tubular operations are quite flexible and output can be adjusted readily in response to changing industry conditions. In the event of stronger than expected industry conditions, LTV Steel's response would likely be to seek to improve financial performance by continuing to upgrade mix and attempting to increase price realizations in all product lines.

EXHIBIT I

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL COMPANY, INC. NET SALES & INCOME
($ Millions)

		1987 Operating Plan					
	Forecast 1986	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
SALES	$ 4,138.4	$1,038.3	$1,031.0	$957.0	$926.6	$3,952.9	$3,891.2
OPERATING INCOME	$ 18.2	$ 61.9	$ 74.5	$ 58.0	$ 57.8	$ 252.2	$ 236.8
Interest Income/(Exp.) and Other (net)	(116.8)	(4.3)	(3.7)	(2.5)	(2.0)	(12.5)	$ (3.5)
Income/(Loss) Before Special Charge & Taxes	(98.6)	57.6	70.8	55.5	55.8	239.7	233.3
Special Charges	(2,129.5)	—	—	—	—	—	—
Income Taxes Credit/(Charge)	9.2	(0.3)	(0.3)	(0.3)	(0.3)	(1.2)	(1.2)
Net Income/(Loss)	$(2,218.9)	$ 57.3	$ 70.5	$ 55.2	$ 55.5	$ 238.5	$ 232.1
KEY STATISTICS							
Operating Income Return on Sales	0.4%	6.0%	7.2%	6.1%	6.2%	6.4%	6.1%
—Per NT Shipments	$ 2	$ 28	$ 34	$ 29	$ 30	$ 30	$ 29
Shipments—(000) NT	8,876	2,198	2,169	2,010	1,943	8,320	8,286

EXHIBIT J

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL COMPANY, INC. CASH FLOW
($ Millions)

	Operating Plan 1987	Operating Plan 1988
SOURCE OF CASH		
Net Income	$238.5	$232.1
Depreciation	195.7	195.8
Working Capital (Excluding Cash, Debt and Intercompany Items)	137.0	52.7
Total	571.2	480.6
USES OF CASH		
Capital Expenditures	281.1	228.8
Other	19.7	17.3
Total	300.8	246.1
Net Sources of Cash Before Intercompany Transfers	270.4	234.5
Transfers To LTV	(270.4)	(234.5)
Net Changes in Cash Position	$—	$—

EXHIBIT K

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL COMPANY, INC. SUMMARY OF FINANCIAL POSITION
($ Millions)

	Forecast 12/31/86	Operating Plan 12/31/87	Operating Plan 12/31/88
CURRENT ASSETS			
Cash and Short-term Securities	$ (0.8)	$ (0.8)	$ (0.8)
Receivables (net of Sales to LTV Sales Finance)	171.4	101.7	91.5
Intercompany Accounts (net)	288.4	558.8	793.3
Inventories (net of LIFO Reserves)	732.4	706.2	634.4
Other Current Assets	19.6	19.6	19.6
Total	1,211.0	1,385.5	1,538.0
CURRENT LIABILITIES			
Accounts Payable	127.7	129.6	98.0
Pre-Petition Current	61.7	30.6	30.6
Other Accrued Liabilities	236.2	306.5	308.8
Total Current Liabilities	425.6	466.7	437.4
WORKING CAPITAL	785.4	918.8	1,100.6
NONCURRENT ASSETS			
Property, Plant & Equipment (net)	2,415.7	2,497.4	2,526.8
Investments and Other Noncurrent Assets	132.3	123.5	115.2
Total Assets Less Current Liabilities	3,333.4	3,539.7	3,742.6
LESS NONCURRENT LIABILITIES			
Plant Closing Reserve	233.0	177.9	131.4
Minority Interest and Other	161.4	184.3	201.6
Pre-Petition Deferred	4,149.7	4,149.7	4,149.7
Total Noncurrent Liabilities	4,544.1	4,511.9	4,482.7
SHAREHOLDER'S DEFICIENCY	$(1,210.7)	$ (972.2)	$ (740.1)

EXHIBIT L

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL TUBULAR PRODUCTS COMPANY NET SALES & INCOME
($ Millions)

	Forecast 1986	1987 Operating Plan 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
SALES	$ 329.9	$54.3	$51.7	$47.9	$47.5	$201.4	$207.4
OPERATING INCOME/ (LOSS)	$ (22.2)	$ 2.2	$ 2.5	$ 1.8	$ 1.8	$ 8.3	$ 8.0
Interest Income/(Exp.) and Other (net)	(14.2)	0.4	0.6	0.5	0.4	1.9	0.5
Income/(Loss) Before Special Charge & Taxes	(36.4)	2.6	3.1	2.3	2.2	10.2	8.5
Special Charge	(89.4)	—	—	—	—	—	—
Income Taxes Charge	0.1	—	—	—	—	—	—
Net Income/(Loss)	$(125.7)	$ 2.6	$ 3.1	$ 2.3	$ 2.2	$ 10.2	$ 8.5
KEY STATISTICS							
Operating Income							
Return on Sales	(6.7)%	4.1%	4.8%	3.8%	3.8%	4.1%	3.9%
— Per NT Shipments	$ (58)	$ 19	$27	$22	$22	$ 22	$ 22
Shipments — (000) NT	384	116	91	83	83	373	371

EXHIBIT M

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL TUBULAR PRODUCTS COMPANY CASH FLOW
($ Millions)

	Operating Plan 1987	1988
SOURCES OF CASH		
Net Income	$10.2	$ 8.5
Depreciation	1.7	1.6
Working Capital (Excluding Cash, Debt and Intercompany Items)	13.4	(10.1)
Total	25.3	—
USES OF CASH		
Capital Expenditures	1.2	1.2
Other	23.9	7.8
Total	25.1	9.0
Net Sources/(Uses) of Cash Before Intercompany Transfers	0.2	(9.0)
Transfers (To)/From LTV	—	9.0
Net Increase in Cash Position	$ 0.2	$ —

EXHIBIT N

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL TUBULAR PRODUCTS COMPANY SUMMARY OF FINANCIAL POSITION
($ Millions)

	Forecast 12/31/86	Operating Plan 12/31/87	12/31/88
CURRENT ASSETS			
Cash and Short-term Securities	$ 0.8	$ 1.0	$ 1.0
Receivables (net)	(2.7)	(2.7)	(2.7)
Intercompany Accounts (net)	(13.5)	(13.5)	(22.5)
Inventories	56.8	41.5	40.5
Other Current Assets	0.2	0.2	0.2
Total	41.6	26.5	16.5
CURRENT LIABILITIES			
Accounts Payable	3.1	5.1	5.1
Other Accrued Liabilities	41.2	37.3	26.2
Total Current Liabilities	44.3	42.4	31.3
WORKING CAPITAL (DEFICIENCY)	(2.7)	(15.9)	(14.8)
NONCURRENT ASSETS			
Property, Plant & Equipment (net)	4.7	5.9	7.1
Investments and Other Noncurrent Assets	97.5	105.5	112.5
Total Assets Less Current Liabilities	99.5	95.5	104.8
LESS NONCURRENT LIABILITIES			
Plant Closing Reserve	15.0	—	—
Minority Interest and Other	0.6	1.4	2.2
Pre-Petition Deferred	153.9	153.9	153.9
Total Noncurrent Liabilities	169.5	155.3	156.1
SHAREHOLDER'S DEFICIENCY	$(70.0)	$(59.8)	$(51.3)

EXHIBIT O

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL GROUP NET SALES & OPERATING INCOME
($ Millions)

	Forecast 1986	1987 Operating Plan 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
SALES							
LTV Steel Co., Inc	$4,138.4	$1,038.3	$1,031.0	$957.0	$926.6	$3,952.9	$3,891.2
LTV Steel Tubular Products Co.	329.9	54.3	51.7	47.9	47.5	201.4	207.4
L-S Electro Galvanizing	58.9	47.0	53.5	54.6	52.8	207.9	225.6
LTV Holdings (Including Storage & Reomar Shipping)	26.5	—	—	—	—	—	—
Eliminations & Adjustments	(129.9)	(51.2)	(61.2)	(63.4)	(61.7)	(237.5)	(244.4)
Total Steel Operations	$4,423.8	$1,088.4	$1,075.0	$996.1	$965.2	$4,124.7	$4,079.8

[EXHIBIT O, Continued]

	Forecast 1986	1987 Operating Plan 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
OPERATING INCOME/(LOSS)							
LTV Steel Co., Inc.	$ 18.2	$ 61.9	$ 74.5	$ 58.0	$ 57.8	$ 252.2	$ 236.8
LTV Steel Tubular Products Co.	(22.2)	2.2	2.5	1.8	1.8	8.3	8.0
Empire Ore Mining Company *	4.6	—	—	—	—	—	—
L-S Electro Galvanizing	(3.3)	1.8	2.6	1.9	1.1	7.4	7.1
LTV Holdings (Including Storage & Reomar Shipping)	(1.4)	—	—	—	—	—	—
Adjustments	3.8	—	—	—	—	—	—
Total Steel Optn's	$ (0.3)	$ 65.9	$ 79.6	$ 61.7	$ 60.7	$ 267.9	$ 251.9
KEY STATISTICS							
Return on Sales	—	6.1%	7.4%	6.2%	6.3%	6.5%	6.2%
—Per NT Shipments	$ —	$ 28	$ 35	$ 29	$ 30	$ 31	$ 29
Shipments—(000) NT	9,260 **	2,314	2,259	2,094	2,026	8,693	8,657
Market Share	13.3%	12.8%	12.8%	12.8%	12.8%	12.8%	12.8%

* Merged into LTV Steel in early 1986.

** Revised from October 1986 forecast to include 1986 shipments of Specialty Products prior to divestiture.

EXHIBIT P

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL GROUP OPERATING PLAN
(000 Net Tons)

	Forecast 1986	Operating Plan 1987	1988
SHIPMENTS	9,260.0	8,692.9	8,657.4
RAW STEEL PRODUCTION			
BOF/QBOP—Cleveland	4,091	3,854	3,756
—Indiana Harbor	3,359	3,291	3,438
—Warren	1,362	1,237	646
—Chicago *	112	—	—
Electric—Cleveland	592	320	768
—Midland **	100	—	—
—Canton	1,167	1,364	1,393
—Chicago *	363	—	—
Total Steel Production	11,146	10,066	10,001
CONTINUOUS CAST STEEL			
Indiana Harbor	3,239	3,261	3,305
Cleveland	2,250	2,462	2,657
Canton	326	411	412
Total Cast Steel	5,815	6,134	6,374
HOT METAL PRODUCTION			
Cleveland	3,446	3,296	3,148
Indiana Harbor	2,661	2,788	2,745
Warren	1,150	1,044	543
Chicago *	165	—	—
Total Hot Metal Production	7,422	7,128	6,436
COKE PRODUCTION	3,548	3,774	3,326

* Idled in 1986.

** Sold in April 1986.

EXHIBIT Q

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

FORECASTS OF DOMESTIC STEEL SHIPMENTS
AS OF 11/10/86
(TONS IN MILLIONS)

	1987	1988
LTV STEEL	67.9	67.9
CHASE ECONOMETRICS	71	71.5
DRI	67.9	71
SALEM GROUP	70	73
ARMCO	63	—
BETHLEHEM	70	73
INLAND	72	73
NATIONAL	63	—
USX	65	—
WEIRTON	74	—
FIRST BOSTON	67	70
GOLDMAN SACHS	68.5	62
KIDDER PEABODY	69.5	—
MELLON BANK	68.9	—
MERRILL LYNCH	70	68.5
OPPENHEIMER	64	—
PAINE WEBBER	65	76.5

SOURCE: COMPANY PUBLICATIONS, INVESTMENT NEWS-LETTERS, TELEPHONE INTERVIEWS.

EXHIBIT R

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL GROUP SUMMARY OF MACROECONOMIC INDICATORS

	ACTUAL			FORECAST		
	1983	1984	1985	1986	1987	1988
REAL G.N.P. GROWTH	3.5%	6.5%	2.2%	2.6%	2.7%	3.0%
G.N.P. DEFLATOR	3.7%	4.2%	3.3%	2.6%	2.5%	3.5%
PRIME RATE—AVERAGE	10.8%	12.0%	9.9%	8.4%	8.0%	7.7%
U.S. DOLLAR EXCHANGE RATE CHANGE	4.0%	7.2%	3.9%	(17.0)%	(3.6)%	0.7%
REFINERS' ACQ. PRICE OF CRUDE OIL ($/BARREL)	$29.01	$28.63	$26.75	$16.72	$16.00	$17-$18
INDUSTRIAL PRODUCTION INDEX (% CHANGE)	5.9%	11.6%	2.3%	0.5%	2.7%	3.1%
HOUSING STARTS (MM UNITS)	1.70	1.76	1.74	1.92	1.75	1.70
UNEMPLOYMENT RATE	9.6%	7.5%	7.2%	7.1%	6.9%	6.5%
CAR SALES (MM UNITS):						
DOMESTIC	6.8	8.0	8.3	7.9	7.8	7.6
FOREIGN	2.4	2.4	2.8	3.0	3.3	3.5
DEALER TRUCK DELIVERIES	3.2	4.2	4.8	4.6	4.7	4.8

Source: DRI and Company Projections

EXHIBIT S

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL GROUP 1987 OPERATING CASH FLOW
($ Millions)

	Primary	Supplementary	Non-Operating	Total
FLAT ROLLED	$326.6	$36.6	$ (5.4)	$357.8
COAL	—	—	(19.2)	(19.2)
BAR	30.9	(1.6)	(37.8)	(8.5)
TUBULAR	7.4	(6.2)	10.0	11.2
LSE	(0.6)	—	—	(0.6)
CORPORATE *	(90.4)	—	—	(90.4)
TOTAL	$273.9	$28.8	$(52.4)	$250.3

* PRIMARILY RETIREE INSURANCE.

EXHIBIT T

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV STEEL GROUP 1988 OPERATING CASH FLOW
($ Millions)

	Primary	Supplementary	Non-Operating	Total
FLAT ROLLED	$278.1	$59.5	$(5.2)	$332.4
COAL	—	—	(10.8)	(10.8)
BAR	27.3	(7.8)	(23.2)	(3.7)
TUBULAR	5.1	(2.8)	(8.0)	(5.7)
LSE	7.1	—	—	7.1
CORPORATE *	(102.4)	—	—	(102.4)
TOTAL	$215.2	$48.9	$(47.2)	$216.9

* PRIMARILY RETIREE INSURANCE.

AEROSPACE

THE LTV CORPORATION AND SUBSIDIARIES
1987-88 OPERATING PLAN

III. LTV AEROSPACE AND DEFENSE COMPANY

Introduction

LTV Aerospace and Defense Company is a premier military contractor and subcontractor and a supplier of medium to high technology aerospace structures. LTVAD recently restructured its organization to emphasize the difference in the markets in which it operates. The "new" LTVAD is now comprised of two major groups—LTV Aircraft Products Group (APG) and LTV Missiles and Electronics Group (M&EG).

The Aircraft Products Group (APG), formerly the Aero Products Division, consists of three new divisions: (1) Military Aircraft Division; (2) Commercial Aircraft Division; (3) Modernization and Support Division. The group is a major subcontractor to both military and commercial aircraft programs.

The Missiles and Electronics Group (M&EG) is comprised of the Missiles Division (MD), Sierra Research Division and AM General Division (AMG). The group is a prime military contractor for missiles, tactical wheeled vehicles and electronic components and systems.

LTVAD has overcome the major obstacles to its business presented by the Chapter 11 filing. With the assistance of the Bankruptcy Court, LTVAD has been able to assure its key suppliers and customers of its continuing ability to meet all of its cash, operating and manufacturing obligations. A major goal of LTVAD's operating plan presentation is to inform LTV's other constituencies of the possibilities for and requirements of these ongoing business needs.

Because of LTVAD's substantial backlog ($4.6 billion at June 30, 1986), the groups can predict their "base" sales

and profitability with reasonable accuracy. The challenge is to compete and win new major profitable contracts, such that the backlog will not only continue to increase but will also perpetuate positive growth into the years beyond this plan period.

Environment

Overview

During the 1980-86 timeframe, U.S. defense budgets have enjoyed substantial real growth; however, during the remainder of this decade it is predicted that the defense budgets will average real growth of -1.0 to -1.5 percent. This factor will obviously increase the market competitive pressures within the industry, pressures that will be further amplified by other forces, such as:

—Policies dictating a higher degree of recompetition and second sourcing.

—Regulation changes requiring a higher percentage of firm-fixed-price competition, as well as reduced levels of progress payments.

—Increased attempts to require defense contractors to invest in the upfront tooling costs for programs.

—Increased levels of competition from foreign sources.

While LTVAD will be subject to these market pressures along with the rest of the industry, there are several existing factors that should prove advantageous to LTVAD.

—The LTVAD backlog contains a well-balanced mixture of production programs and R&D programs, which will provide a stable return on sales.

—Most of LTVAD programs represent hardware and systems that fulfill a generally accepted military need, and have, in the past, been reasonably sup-

ported during the fiscal budget process. It is reasonable to predict, therefore, that these programs should be less likely to be candidates for cancellation, and at the worst suffer only from program stretch-out due to fiscal pressures.

—Several years ago LTVAD adopted a policy of being more willing to accept firm-fixed-price contracts in lieu of cost-plus contracts. Since that time, a major percentage of LTVAD's revenues and profits have been generated on a fixed-price basis. The experience gained in terms of total workforce philosophy, management control techniques and customer confidence should accrue as a distinct advantage to LTVAD in future competitions for and performance of contracts.

APG Environment

LTV's Aircraft Products Group serves both the military and commercial markets. During the 1984-1986 timeframe APG's revenues grew at a compounded annual rate of approximately 30%. This rate will not be sustainable during the forecast period as APG will be closing out production on one of its major programs, namely B-1 production. During the 1987-88 timeframe, the group will be tooling and facilitizing for major new programs that will be entering production between now and the end of this decade. Inherent in this production process is a temporary reduction in annual revenues, which will bottom-out in 1988 and return to a positive growth in 1989.

APG commercial programs will enjoy a period of modest growth during the next several years due to increased production rates of commercial aircraft.

M&EG Environment

The forecasted operating environment differs for each of M&EG's three divisions.

Because of its involvement with major complex strategic military programs, the M&EG's Missiles Division's markets appear relatively strong, despite the overall mediocre defense industry environment. MD is at the beginning or early stages of lead-in contracts, many of which could have production runs through the year 2000. These programs—including MLRS, ATACMS, ASAT and other missile programs—are broad-based and unlikely to be cut even as national defense spending is scaled back. International sales of the MLRS also appear a strong possibility.

AM General's market environment for the next two years will be tougher than M&EG's other divisions. During the forecast period, AMG is concluding a large production run of the Hummer which had numerous and well-publicized problems and which will not be profitable. The Congress has appeared lukewarm to the Army's plans for a new family of medium tactical wheeled vehicles, an area where AM General would be quite strong and competitive. Funding for this new program could move further to the out years. Loss of the M939 rebuy means that production on this vehicle could be phased out in late 1987.

International factors could be detrimental to AM General's predicted operating environment. The international markets—heretofore projected as a substantial opportunity for the division—are becoming more difficult to penetrate due to increased competition, the Third World debt burden, the oil market collapse (making sizeable wheeled military vehicle purchases by the affected countries unlikely) and other political forces. The international markets for commercial trucks are experiencing similar downturns:

—There is aggressive foreign entry into the world medium/heavy truck market by companies such as Hino, M.A.N., Isuzu, Mercedes, Volvo, Nissan, Mitsubishi and Iveco.

—Commercial medium/heavy truck manufacturers already have excess production capacity worldwide in a depressed market.

Sierra Research Division is the smallest division within the Missiles and Electronics Group, and as such, its contracts are smaller (in sales dollars) than the average contract within the group. Sierra Research has a wide diversity of government electronic contracts which should minimize the impact of major military or commercial budget reductions. Sierra Research will be operating in a favorable market environment during the next two years, which should offer substantial growth opportunities with a minimum of capital expenditures.

Strategies and Objectives

Summary

For the Plan period and beyond, LTVAD's summary strategy is to capitalize on its existing backlog of well-supported programs, and to sustain a positive growth rate during this period of reduced defense budgets. Integral to this strategy will be to continue to excel in terms of contract performance, such as to perpetuate a recognized reputation for satisfactory contract fulfillment, innovativeness in selected key technologies, and a willingness to invest in the technologies and facilities required for the execution of future programs. This summary strategy can be amplified as follows:

—APG to achieve modest growth in the manufacture of medium to high technology aerospace structures and to capitalize on the growth that will occur in the aircraft overhaul and modernization segment of the market.

—MD to profitably grow its existing surface-to-surface missile programs, and to rapidly expand into new market segments of air-to-air missiles.

—Continue to improve AMG's cost and quality performance on Hummer production, and to refine the organization's competitive structure for future military truck competitions, including the forthcoming Hummer rebuy.

—To sustain high near term growth rates at Sierra through the penetration into new major system and electronic warfare markets.

APG Strategy

The Aircraft Products Group's objective is to build upon its reputation as a premier supplier of aircraft structures. APG's strategy is to be a "team member" of aircraft prime contractor product teams and to invest in selective aerospace technologies where it has a competitive advantage, including manufacturing technology specialties, engineering expertise and test laboratory capability. Additionally, the group will selectively compete with traditional aircraft structure subcontractors in situations where its combination of low cost rates and manufacturing technology base appear to provide an overall competitive edge. APG also intends to concentrate its independent research and development on "high-profitability-win" opportunities and to make manufacturing technology the capital resources priority.

M&EG Strategy

Within M&EG, AM General's goal is to remain as a leading producer of tactical wheeled vehicles while continuing to improve profitability. AMG is curently the principal supplier of tactical wheeled vehicles and variants to the U.S. Army and believes that potential annual sales of such vehicles to the international market could be between $100 and $200 million. AMG's objectives for the Plan period include:

—successfully completing the Hummer contract,

—winning the Hummer rebuy,

—continuing 5-ton truck production through 1988,

—increasing international sales of the Hummer and 5-ton truck,

—continuing aggressive cost reduction program,

—winning the Family of Medium Tactical Vehicles ("FMTV") production contract when offered to the industry and

—pursuing the Family of Heavy Tactical Vehicles ("FHTV") program when offered to the industry.

M&EG's Missiles Division's emphasis during the next two years will be to capitalize on areas where it already has a lead-in program. The Company's major new business includes MLRS, ATACMS, ASAT, Hypervelocity Missile (HVM), Pedestal Mounted Stinger (PMS) and VT-1. Additional business opportunities exist in potential system variants, funded technology program evolution, subsystems development, leveraged technology development and international activities.

M&EG's Sierra Research's primary business elements and objectives for each are as follows: communication, command and navigation—to propagate current product lines and maintain high returns on sales; advanced technology programs—to position Sierra as a large systems contractor and integrator, thereby ensuring profitability; electronic warfare—to penetrate further the "EW" market and position Sierra as an "EW" house; and international activities—to sell current products overseas, possibly increasing sales through new product offerings or joint ventures.

Recent Awards

Among the awards LTVAD has received since the filing are the following:

DIVISION

Aircraft Products

Date Received	Award (Product)	Award ($ Millions)	Variant/ Follow-on Potential
09/86	DC-10 Horizontal Stabilizer	$ 3.5	$5.0 M
09/86	ANG—A-7 Video Management System Kits & Installation	$ 8.1	—
10/86	C-17 Empennage and Nacelles Pre-award Support	$ 5.2 (1)	$3.5 B (Total Years)
11/86	Boeing—150-747's 100-757's 100-767's	$22.0 (2)	Approx. $175 M to $200 M per year

(1) A contract in the amount of $182.5 million for the FSD phase of the C-17 program has been negotiated and is in the process of being executed by McDonnell Douglas.

(2) An agreement on price has been reached with Boeing for follow-on orders to existing contracts in the amount of $596.0 million. Orders are received and entered in backlog as incrementally released by Boeing.

Missiles & Electronics

Date Received	Award (Product)	Award ($ Millions)	Variant/ Follow-on Potential
11/86	Follow-on Hummer	$271.4	$1,700.0
11/86	5-Ton Trucks	3.4	600.0
11/86	Engineering Services	6.5	30.0
11/86	MLRS Rocket System Spares	4.3	100.0
11/86	MLRS Rocket Systems	229.0	2,300.0
11/86	Hummer GTE Communications	4.4	225.0
10-11/86	Flight Inspection & Station-keeping Equipment & Spares	12.8	500.0

Capital Plan

Overview

LTVAD is entering a period where significant capital investment is required. In large measure, these investments represent the fulfillment of contract commitments for programs entering their production phase. To a lesser degree, capital is required to rehabilitate and/or replace basic plant equipment that is experiencing low availability due to breakdown or has exceeded its useful life.

The Military Aircraft Division of the Aircraft Products Group and the Missiles Division of the Missiles and Electronics Group are the divisions requiring most capital during 1987 and 1988. Projected expenditures for AM General and Sierra Research are small, designed primarily to service existing contractual obligations and operational equipment/facilities.

APG Capital

The Plan identifies investment levels of $106 million in 1987 and $116 million in 1988 for capital equipment and facilities needed to support the Aircraft Products Group's contracts.

The major capital projects for APG during this Plan include the Flexible Composites Center (FCC) and the Integrated Machining Systems (IMS), both required to fulfill the contractual commitments of the ADP Program. The IMS project represents the design and installation of manufacturing equipment into existing facilities, while the FCC project represents the construction of a new 700,000 square foot facility and the installation of automated equipment necessary for the manufacture of advanced state-of-the-art composites. Both projects are scheduled for completion in 1989, with the current Plan calling for the FCC to be financed through a combination lease/ownership arrangement.

Other major projects during this time frame include a 74,000 square foot facility addition for ADP final assembly and a 40,000 square foot shipping facility that will service both the ADP and C-17 Programs.

M&EG Capital

Missiles and Electronics Group forecasts capital expenditures of $69 million and $70 million in 1987 and 1988, respectively. The major capital projects include facilitization for the ATACMS, MLRS, ASAT and Hummer Programs as well as expenditures to assure future growth by supporting continued research and development of longer-term technology.

Financial Results

1987 Net Sales (Exhibit U)

1987 planned net sales total $2,559 million, $94 million above the forecast 1986 level. Approximately 63% of the total will be provided by M&EG with the remaining 37% produced by APG.

LTV's Aircraft Products Group's 1987 sales are projected to be approximately $948 million, a decrease of $134 million from the 1986 projection primarily due to lower B-1B program sales and reduced sales on the ADP's program. Revenues from the completion of the B-1B fuselage shipments to Rockwell, Advanced Development Programs and Boeing aircraft component deliveries are the principal components of APG's forecast 1987 sales.

M&EG's sales are forecast to be $1,612 million for 1987. The principal components of this revenue include the delivery of over 19,000 Hummer units to the U.S. Government, the completion of the M939 5-ton truck program and substantial sales of wheeled vehicles to foreign customers (AMG); high volume monthly MLRS deliveries,

the start-up of the ATACMS program and the continuation of the ASAT program (Missiles Division); and sales of Radar Bomb Scoring Systems, LAMPS and Stationkeeping equipment (Sierra Research). M&EG's $228 million sales increase from 1986 projections is primarily due to an increase of $76 million in Hummer sales and increased foreign sales of 2½- and 5-ton trucks, which increases are partially offset by the decline of the M939 5-ton truck shipments (AMG); a $115 million increase due to MLRS rocket production and the continued buildup of the ATACMS program (Missiles Division); and an increase in Stationkeeping equipment sales and Systems Integration growth (Sierra Research).

Exhibits Y & BB provide greater detail of sales by major program category.

1987 Operating Income (Exhibit U)

LTVAD projected 1987 operating income totals $160 million, $43 million higher than the 1986 forecast level. M&EG accounts for approximately $81 million of this total, with the remainder provided by APG. 1987 operating income as a percentage of sales is projected at 6.0%, a favorable change relative to 1986. APG's projected operating income of $79 million is $21 million lower than the 1986 level due to lower B-1B and ADP's Program sales. M&EG's operating income increases approximately $64 million relative to 1986, primarily because of AMG's Hummer contract loss provision which was recorded in 1986 and higher sales of MLRS and ATACMS programs. Exhibits U, X and AA provide detail of these changes.

1987 Cash Flow (Exhibit V)

Planned 1987 net income of $159 million and depreciation of $31 million are partially offset by additions to working capital and property, resulting in $6 million of cash flow before intercompany transfers.

During 1987, LTVAD's working capital (including cash and intercompany accounts) is planned to increase by $58 million, to $385 million. This growth is primarily attributable to a net inventories increase of $61 million. $40 million of this increase is due to APG's support of higher production on the Boeing 747, ADP's and C-17 Programs. The remaining inventory increase results from a higher MLRS rocket rate production in M&EG's MD unit and higher rate Hummer production in M&EG's AMG unit.

1988 Operating Plan

Projected 1988 sales of $2,492 million represent a $67 million decline from the planned 1987 level. The APG sales reduction of $217 million is primarily due to the completion of the B-1B Program in 1987. M&EG's sales increase of aproximately $150 million, is due to all of its divisions projecting higher revenues. 1988 operating income follows a similar trend: the increase in M&EG's forecast operating income is slightly exceeded by the expected decrease in APG's operating income, resulting in an overall expected decrease in LTVAD's 1988 projected operating income relative to 1987. LTVAD's operating margin is projected to remain flat during this period.

LTVAD's 1988 projected firm funded ending backlog is $3.1 billion, including new orders of approximately $2.2 billion received during 1988, as detailed in Exhibit Z and CC.

LTVAD's projected 1988 net income of $161 million and depreciation of $35 million are partially offset by an increase in working capital and property additions, resulting in an cash flow before intercompany transfers of $80 million.

To summarize, 1988 reflects a slight decline in sales and income from 1987 with a substantial increase in cash generation.

Major Issues

The major challenge facing LTVAD during this Plan period is continuing to assure all customers that it can perform all its contracts and meet all its commitments. Equally important is to continue the investment of research and development funds necessary to insure the sustained and profitable growth of all the operating divisions.

The major issues for APG during this Plan period include:

—Successful technical and political maturing of the ADP Program.

—Continued budget support for the C-17 Program.

—Successful implementation of major capital projects.

—Negotiations with Boeing for a follow-on $600 million commercial order.

—Receiving a $100 million development contract in 1987 from the U.S. Air Force, to demonstrate the effectiveness of a modernized A-7 attack aircraft.

—Cultivating significant international follow-on orders from both Greece and Portugal for A-7's.

For M&EG, major issues in 1987 and 1988 include:

—Keeping Hummer production within its cost structure.

—Facilitization for the ATACMS program.

—Achieving a major MLRS international award.

—Achieving forecasted international sales at AMG.

EXHIBIT U

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN
($ Millions)

LTV AEROSPACE AND DEFENSE COMPANY NET SALES & OPERATING INCOME

	Fcst. 1986	1987 Operating Plan 1st Qtr.	2nd Qtr.	3d Qtr.	4th Qtr.	Year	Plan 1988
NET SALES							
Missiles & Electronics Group	$1,382.8	$395.7	$374.8	$399.3	$441.8	$1,611.6	$1,761.1
Aircraft Products Group	1,081.9	248.5	257.9	221.7	219.5	947.6	730.7
Total	$2,464.7	$644.2	$632.7	$621.0	$661.3	$2,559.2	$2,491.8
OPERATING INCOME							
Missiles & Electronics Group	$ 17.7	$ 19.6	$ 17.5	$ 20.1	$ 23.7	$ 80.9	$ 96.2
Aircraft Products Group	99.7	20.8	21.8	19.5	16.8	78.9	61.1
Total	117.4	40.4	39.3	39.6	40.5	159.8	157.3
Interest Income/(Exp.) & Other (net)	(11.2)	0.3	(0.2)	(0.5)	(0.1)	(0.5)	3.3
Special Charge (a)	(140.1)	—	—	—	—	—	—
Net Income/(Loss)	$ (33.9)	$ 40.7	$ 39.1	$ 39.1	$ 40.4	$159.3	$160.6

(a) AMG Goodwill and Facilities Write-off

[EXHIBIT U, Continued]

	Fcst. 1986	1st Qtr.	2nd Qtr.	3d Qtr.	4th Qtr.	Year	Plan 1988
KEY STATISTICS							
Return on Sales	4.8%	6.3%	6.2%	6.3%	6.1%	6.2%	6.4%
Net Assets Employed	$ 412	$ 485	$ 530	$ 593	$ 566	$ 566	$ 659
Orders	$ 2,462	$ 355	$ 862	$ 472	$ 793	$2,482	$2,202
Backlog (End of Period)							
Firm	3,443	$3,154	$3,383	$3,234	$3,366	$3,366	$3,076
Unfunded	615	588	288	286	23	23	—
Total	$ 4,058	$3,742	$3,671	$3,520	$3,389	$3,389	$3,076

EXHIBIT V

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY CASH FLOW
($ Millions)

	Operating Plan 1987	Operating Plan 1988
SOURCES OF CASH		
Net Income	$159.3	$160.6
Depreciation	31.4	34.9
Working Capital (Excluding Cash and Intercompany Items)	(51.5)	(1.4)
Total	139.2	194.1
USES OF CASH		
Capital Expenditures	120.0	118.2
Other	13.0	(3.9)
Total	133.0	114.3
Net Sources of Cash Before Intercompany Transfers	6.2	79.8
Transfers (To)/From LTV	52.6	(34.7)
Net Increase in Cash Position	$ 58.8	$ 45.1

EXHIBIT W

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY SUMMARY OF FINANCIAL POSITION
($ Millions)

	Forecast 12/31/86	Operating Plan 12/31/87	Operating Plan 12/31/88
CURRENT ASSETS			
Cash and Short-term Securities	$ 57.4	$116.2	$161.3
Receivables (net)	172.6	192.7	204.5
Intercompany Accounts (net)	14.5	(38.1)	(3.4)
Inventories	264.1	325.1	329.1
Other Current Assets	27.4	26.1	25.9
Total	536.0	622.0	717.4
CURRENT LIABILITIES			
Accounts Payable	85.2	98.3	107.9
Pre-Petition Current	62.8	18.5	17.7
Other Accrued Liabilities	60.5	120.0	125.4
Total Current Liabilities	208.5	236.8	251.0
WORKING CAPITAL	327.5	385.2	466.4
NONCURRENT ASSETS			
Property, Plant & Equipment (net)	195.3	283.7	360.2
Investments and Other Noncurrent Assets	145.6	143.1	140.1
Total Assets Less Current Liabilities	668.4	812.0	966.7
LESS NONCURRENT LIABILITIES			
Plant Closing Reserves	35.8	20.1	14.2
Minority Interest and Other	0.3	0.3	0.3
Pre-Petition Deferred	292.4	292.4	292.4
Total Noncurrent Liabilities	328.5	312.8	306.9
SHAREHOLDER'S EQUITY	$339.9	$499.2	$659.8

EXHIBIT X

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY MISSILES AND ELECTRONICS GROUP
NET SALES & OPERATING INCOME
($ Millions)

	Fcst. 1986	1987 Operating Plan 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
NET SALES							
AM General	$ 715.4	$234.2	$194.8	$161.1	$202.4	$ 792.5	$ 812.1
Missiles Division	538.6	138.9	158.8	184.7	186.6	669.0	769.0
Sierra Research	128.8	22.6	21.2	53.5	52.8	150.1	180.0
Total	$1,382.8	$395.7	$374.8	$399.3	$441.8	$1,611.6	$1,761.1
OPERATING INCOME/(LOSS)							
AM General	$ (24.8)	$ 10.3	$ 6.2	$ 3.7	$ 8.0	$ 28.2	$ 32.2
Missiles Division	32.1	8.4	10.5	12.3	12.7	43.9	51.8
Sierra Research	10.4	1.2	1.1	4.4	3.3	10.0	13.3
Corporate	—	(0.3)	(0.3)	(0.3)	(0.3)	(1.2)	(1.1)
Total	$ 17.7	$ 19.6	$ 17.5	$ 20.1	$ 23.7	$ 80.9	$ 96.2
KEY STATISTICS							
Return on Sales	1.3%	5.0%	4.7%	5.0%	5.4%	5.0%	5.5%
Orders	$1,564	$ 182	$ 698	$ 208	$ 613	$1,701	$1,496
Backlog (End of Period)							
Firm	$2,402	$2,188	$2,512	$2,321	$2,491	$2,491	$2,225
Unfunded	615	588	288	286	23	23	—
Total	$3,017	$2,776	$2,800	$2,607	$2,514	$2,514	$2,225

EXHIBIT Y

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY MISSILES AND ELECTRONICS GROUP
MAJOR PROGRAM SALES
($ Millions)

DIVISION/ PROGRAM		Forecast 1986	Operating Plan 1987	1988
AM General				
M939 Trucks	Sales	$ 283.5	$ 79.4	$ —
	Deliveries	4,019	854	—
Hummer	Sales	$ 323.7	$ 476.4	$ 475.9
	Deliveries	14,422	19,601	18,642
Export Units	Sales	$ 31.3	$ 70.0	$ 178.6
	Deliveries	380	1,222	2,444
Foreign Military Sales—Gov't	Sales	$ 13.0	$ 80.1	$ 71.0
	Deliveries	380	1,589	920
Missiles Division				
Multiple Launch Rocket System (MLRS)	Sales	$ 346.6	$ 393.0	$ 479.0
—Launch Pod Containers (LPCs)	Deliveries	7,930	10,870	13,420
—Self-Propelled Loader Launchers (SPLLS)		58	45	54
Antisatellite Program (ASAT)	Sales	$ 97.7	$ 100.0	$ 80.0
Army Tactical Missile System (ATACMS)	Sales	$ 30.8	$ 66.0	$ 62.4
Sierra				
Command & Control	Sales	$ 77.5	$ 62.8	$ 76.0
Test & Evaluation, Avionics	Sales	$ 36.1	$ 48.1	$ 44.0
Systems Integration	Sales	$ 10.1	$ 27.3	$ 36.9

EXHIBIT Z

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY MISSILES AND ELECTRONICS GROUP
1987 PLANNED NEW ORDERS
($ Millions)

DIVISION/PROGRAM	1987 NEW ORDERS FOLLOW-ON PROGRAMS	NEW PROGRAMS	TOTAL
AM General			
M939	$ 4	$ —	$ 4
Hummer	372	—	372
Export Units	198	—	198
Foreign Military Sales—Gov't	114	—	114
Service Parts/Other	68	—	68
Subtotal	756	—	756
Missiles Division			
Multiple Launch Rocket System (MLRS)	342	155	497
Antisatellite Program (ASAT)	104	—	104
Army Tactical Missile System (ATACMS)	15	—	15
Hypervelocity Missile (HVM)	14	—	14
Other	154	—	154
Subtotal	629	155	784
Sierra Research			
Command & Control	66	—	66
Test & Evaluation, Avionics	41	—	41
Systems Integration	2	28	30
Other	15	9	24
Subtotal	124	37	161
TOTAL	$1,509	$192	$1,701

[EXHIBIT Z, Continued]

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY MISSILES AND ELECTRONICS GROUP
1988 PLANNED NEW ORDERS
($ Millions)

DIVISION PROGRAM	1988 NEW ORDERS FOLLOW-ON PROGRAMS	NEW PROGRAMS	TOTAL
AM General			
Hummer	$ 315	$ —	$ 315
Export Units	31	—	31
Foreign Military Sales—Gov't	19	—	19
Service Parts/Other	91	—	91
Subtotal	456	—	456
Missiles Division			
Multiple Launch Rocket System (MLRS)	234	150	384
Antisatellite Program (ASAT)	125	—	125
Army Tactical Missile System (ATACMS)	50	—	50
Hypervelocity Missile (HVM)	100	—	100
Other	172	—	172
Subtotal	681	150	831
Sierra Research			
Command & Control	83	—	83
Test & Evaluation, Avionics	49	—	49
Systems Integration	5	32	37
Other	12	28	40
Subtotal	149	60	209
TOTAL	$1,286	$210	$1,496

EXHIBIT AA

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY AIRCRAFT PRODUCTS GROUP
NET SALES & OPERATING INCOME
($ Millions)

		1987 Operating Plan					
	Fcst. 1986	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
NET SALES							
Military Aircraft	$ 753.4	$163.7	$163.9	$156.9	$136.3	$620.8	$385.6
Commercial Aircraft	197.0	42.4	51.8	37.4	49.4	181.0	182.0
Modernization & Support	131.5	42.4	42.2	27.4	33.8	145.8	163.1
Total	$1,081.9	$248.5	$257.9	$221.7	$219.5	$947.6	$730.7
OPERATING INCOME							
Military Aircraft	$ 72.6	$ 15.4	$ 16.1	$ 15.6	$ 12.2	$ 59.3	$ 25.5
Commercial Aircraft	14.6	2.1	2.4	2.0	2.4	8.9	22.5
Modernization & Support	12.5	3.6	3.5	2.2	2.5	11.8	14.2
Corporate	—	(.3)	(.2)	(.3)	(.3)	(1.1)	(1.1)
Total	$ 99.7	$ 20.8	$ 21.8	$ 19.5	$ 16.8	$ 78.9	$ 61.1
KEY STATISTICS							
Return on Sales	9.2%	8.4%	8.5%	8.8%	7.7%	8.3%	8.4%
Orders	$ 898	$173	$164	$264	$180	$781	$706
Backlog (End of Period)							
Firm	$1,041	$966	$871	$913	$875	$875	$851

EXHIBIT BB

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY
AIRCRAFT PRODUCTS GROUP
MAJOR PROGRAM SALES & DELIVERIES
($ Millions)

		FORECAST	OPERATING PLAN	
DIVISION/PROGRAM		1986	1987	1988
Military Aircraft				
B-1B	Sales	$400.5	$275.0	$22.0
	Deliveries			
	—AFT	42	37	—
	—AIF	41	40	—
ADP's	Sales	$338.7	$318.0	$210.4
C-17	Sales	$ 7.9	$ 27.7	$137.9
Commercial Aircraft				
Boeing 747	Sales	$ 83.6	$ 71.2	$ 97.8
	Deliveries	37	27	38
Boeing 757	Sales	$ 54.8	$ 59.5	$ 56.6
	Deliveries	35	37	36
Boeing 767	Sales	$ 21.3	$ 25.2	$ 22.5
	Deliveries	29	34	35
Modernization & Support				
A-7 Domestic	Sales	$129.0	$126.1	$ 63.9
A-7 International	Sales	$ —	$ —	$ 5.0
A-7 Plus	Sales	$ —	$ 15.0	$ 90.4

EXHIBIT CC

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY
AIRCRAFT PRODUCTS GROUP
1987 PLANNED NEW ORDERS
($ Millions)

	1987 New Orders		
DIVISION/PROGRAM	Follow-On Programs	New Programs	Total
Military Aircraft			
B-1B Program	$ 22	$ —	$ 22
ADP's	318	—	318
C-17	32	—	32
Other	10	—	10
Subtotal	382	—	382
Commercial Aircraft			
Boeing 747	120	—	120
Boeing 757	43	—	43
Boeing 767	37	—	37
Other	2	—	2
Subtotal	202	—	202
Modernization and Support			
A-7 Domestic	78	—	78
A-7 International	—	9	9
A-7 Plus	—	110	110
Subtotal	78	119	197
Total	$662	$119	$781

[EXHIBIT CC, Continued]

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV AEROSPACE AND DEFENSE COMPANY
AIRCRAFT PRODUCTS GROUP
1988 PLANNED NEW ORDERS
($ Millions)

	1988 New Orders		
DIVISION/PROGRAM	Follow-On Programs	New Programs	Total
Military Aircraft			
B-1B Program	$ 22	$ —	$ 22
ADP's	210	—	210
C-17	90	—	90
Other	24	—	24
Subtotal	346	—	346
Commercial Aircraft			
Boeing 747	85	—	85
Boeing 757	99	—	99
Boeing 767	22	—	22
Subtotal	206	—	206
Modernization and Support			
A-7 Domestic	52	—	52
A-7 International	—	50	50
A-7 Plus	51	—	51
Other	1	—	1
Subtotal	104	50	154
Total	$656	$ 50	$706

ENERGY

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

IV. LTV ENERGY PRODUCTS COMPANY

Overview

LTVEP forecasts its macroeconomic and industry data based primarily on management's understanding of and experience in the energy products industry. While the forecasts presented are not derived from any one source in particular, they are consistent with most published economic analyses and with trends and events the industry is now experiencing.

All of LTVEP's main businesses—including the manufacturing and distribution of oil drilling and production equipment—are influenced by worldwide prices and demand for oil and natural gas. As such, the division's profitability and size are determined primarily by forces over which it can exert little control.

Like other companies in its industry, LTVEP has taken numerous actions to weather the current depressed market conditions. These actions fall into two related categories: asset disposals/downsizing and cost-cutting measures. LTVEP has disposed of certain non-performing assets. Southwest Industrial has been sold and agreements have been reached on Skagit and Evansville. Energy Products has also closed twenty-six store and sales office operations and discontinued certain unprofitable product lines. Additionally, management has instituted numerous cost reduction programs, including decreasing staff and upper and middle management positions, reducing manpower by 1,500 (or approximately 50%), reclassifying and downgrading job positions, renegotiating union contracts at Houston and Garland and significantly reducing systems and data processing costs. Finally, in an effort to maintain liquidity, the Fibercast subsidiary and various oil and gas properties were sold.

As a result of these measures LTVEP is a much smaller company going into the Plan period than it had been heretofore.

Environment and Issues

Oil Industry Assumptions

The following assumptions relating to the entire oil industry are incorporated into the 1987-1988 Plan:

—Oil and gas prices are projected to stabilize in the \$15.00 BBL and \$2.00 MCF range, respectively, and modestly improve to the \$18.00 BBL and \$2.10 MCF range during 1988.

—Though there is growing pressure by producing states for a "sliding scale" import tax, additional legislation is not anticipated in the Plan.

—Uncertainty and concern over OPEC's ability to maintain production quotas will continue to delay major increases in exploration and production expenditures.

—Projected price levels will result in a continuing increase of imported crude and a decline in U.S. production.

—The repeal of the Producers Gross Revenues Tax (PGRT) in Canada will somewhat improve energy industry cash flow and imposition of various provincial tax holidays will further improve the economic climate, although there is no expectation of a major resurgance of drilling activity.

Market Assumptions (Exhibit EE)

The following market assumptions were also considered while formulating the 1987-1988 Plan:

—Forecasted rigs running in 1987 will be down from 1986, but slightly improved over second/third quarter 1986 levels.

—Excess inventories, manufacturing capacities and services will continue to depress prices and margins.

—Acquisitions, mergers, consolidations, bankruptcies and the purchasing of reserves vs. drilling in the oil and gas industry will continue into 1987, thereby reducing cash flow and resources for exploration.

—Oil and gas price improvement will be insufficient to provide a major upturn during the time frame of this Plan.

Objectives

LTV Energy Products Company has a number of objectives to be accomplished in the two-year Plan period. The successful attainment of these goals will enhance the likelihood of meeting the projections outlined herein. The key objectives for the Energy Group are listed as follows:

—*Regain lost market share and customer confidence*—Energy Products enjoyed steady growth in market share from 1982 through the first quarter of 1986. However, because of the reorganization filing, LTV Energy Products has lost much customer confidence and favored status leading to an erosion of market share. Steps anticipated to counteract these problems are:

—Frequent communications with customers informing them of LTV Corporation's improved financial viability.

—Personal contact with major customers to resolve Chapter 11 concerns.

—Aggressively resolve customer pre-petition warranty claims.

—*Re-establish favored position with suppliers and vendors*—Through its leadership position in the

industry, Energy Products had established favored pricing, freight, credit terms and other commercial positions with suppliers and vendors. The vendor conditions which followed the filing have been disruptive to business, reducing advantages of "lowest" material acquisitions cost and disrupting service to customers. Major programs to re-establish relationships with suppliers and vendors are:

—Frequent communications with all major vendors to demonstrate LTV Corporation's improved financial viability.

—Personal contact with senior management of all major suppliers and vendors.

—Identify and use alternate sources of supply where improved trade terms are available.

—*Develop reduced cost systems/data processing concepts*—In the late 1970's and early 1980's, Energy Products, with the help of AT&T and IBM, developed a state-of-the-art on-line management system with annual maintenance and support costs of $5.0 million. This system provided a distinct advantage when sales volume was at $2.0 billion per year; as a $200 million company, however, these system and support costs have not decreased sufficiently. Hardware, software and maintenance contracts will be renegotiated to eliminate non-essential items and reduce cost of equipment retained. The communications network will be reconfigured to lower the cost for the downsized company and, longer term, an alternative approach will be implemented which will avoid dependence on a high fixed cost mainframe system.

—*Design and implement revised fringe benefit programs*—Despite significant efforts to reduce costs in the area of employee benefits, fringe costs have

risen from 26% of salaries in 1982 to 33% in 1986. This percentage increase is due to a substantial reduction in the number of active employees. The existing fringe benefit package must be re-evaluated in order to design and implement a more cost effective program. The revised program design will be completed and implemented by first quarter 1987. The LTVEP Plan includes savings of $3 million on an annualized basis as a result of the revised benefits.

—*Continued cost/expense reduction program*—The decline in demand for products and services triggered cost-cutting measures which have already been implemented. LTVEP will continue these cost-cutting measures. The Plan includes $2.0 million and $.5 million of cost reduction goals in the selling and administrative expense areas respectively, for 1987 and 1988.

—*Reduce excess inventory*—The precipitous decrease in demand for all energy-related products and services created significant excess inventory in all operating areas, with drilling machinery representing the most significant problem area. Efforts will be focused on further inventory reductions and cash generation.

—*Maintain positive cash flow from operations*—Energy Products has been able to generate substantial cash since the downturn of the energy industry in 1982. Liquidation of excess inventory, collection of receivables and sale of assets have played a major role in generating cash flow. Energy Products intends to continue to generate cash by tightly controlling costs and aggressively pursuing opportunities to sell excess inventory.

Capital Expenditures

LTVEP's capital expenditure program for the Plan includes only enough cash to prevent deterioration in the Company's property, plant and equipment and to assist in cost reductions. Total expenditures are currently forecast at $2.3 million per year for the two-year period and consist primarily of replacement and maintenance expenditures required at the current low operating levels.

Financial Results

1987 Net Sales (Exhibit DD)

The Energy Group's planned net sales for 1987 are $222 million, $80 million lower than 1986. The decrease is based on a continued glut of crude oil. The existing surplus of oil and gas will continue through 1987 leading to reductions in active rigs, new wells completed, need for tubular, general merchandise and production related products and demand for skid mounted and mobile drilling rigs. Sales will also be lower because of the forecast sale of Skagit and the sale of Fibercast in 1986 and the large rig package sales made to China in 1986 which are not expected to recur.

Distribution group sales are expected to decline by $44 million (25%) in 1987 due to the projected 16% worldwide decrease in average rig utilization. The U.S. average rig count is expected to drop to 750 in 1987, down 19% from 1986, with footage drilled showing a 14% decrease. The distribution group sales are also adversely affected by excess tubular inventories held by customers, particularly in the high-strength alloy and special end finish segments. Production equipment sales are forecast to decrease by $9 million or 20%, with the expected decrease in the number of new wells completed resulting in lower demand for production related products and a continuation of shut-in stripper wells reducing the subsurface repair market. Drilling equipment sales will de-

crease by $27 million (56%) due to a combination of the lack of demand for new rigs caused by low levels of worldwide rig utilization, significant levels of excess equipment inventory in the industry, an end to the large rig package sales to China and the sale of Skagit. Oil States Industries' sales expect a modest improvement of $2 million or 9% in 1987 due to increased sales to non-energy related markets, primarily in aerospace and defense.

1987 Operating Income/(Loss) (Exhibit DD)

The 1987 operating loss of $1.6 million is $37.2 million better than the forecast 1986 loss of $38.8 million, primarily due to reductions in operating costs, the elimination of losses caused by the liquidation of inventories below cost and the benefit of the 1986 Special Charge which reduced the carrying value of certain inventory expected to be sold during the Plan period. Overall loss reductions should also be aided by the full impact of benefits associated with the force reductions (including a lower severance cost in 1987). The distribution division's operating results are expected to improve $18.9 million from 1986's operating loss of $18.0 million through benefits from cost reductions, eliminations of inventory liquidations below cost and the gradual elimination of the adverse impact of the reorganization filing on many customers. Improvement of $4.5 million in the operating results for production equipment is expected in 1987 despite the elimination of Fibercast and reflects improved margins due to product mix and cost reductions. Drilling equipment's 1987 operating loss is expected to be $1.7 million, $12.4 million better than 1986 forecast due to cost reductions, increased volume of high-margin repair part sales, elimination of the inventory liquidation losses and the sale of Skagit. Oil States' operating results in 1987 are expected to improve by $1.6 million to $0.4 million operating income, reflecting the increased growth of non-oilfield product lines.

1987 Cash Flow (Exhibit FF)

The 1987 planned cash generation of $5.8 million is $1.2 million better than 1986, due to a reduction in the net loss. Inventory reductions will not generate cash equivalent to 1986 levels. Capital expenditures of $2.3 million reflect only essential programs designed to maintain existing facilities or reduce costs.

1988 Operating Plan

1988 operations are expected to improve slightly over the 1987 Plan levels, with sales of $237.1 million generating an operating income of $2.1 million. The key elements of this improvement are a moderate projected increase in oil prices and the continuing depletion of the existing gas surplus. These factors could combine to induce some additional rig activity, along with stimulating spending growth for both exploration and development. However, the continued existence of excess equipment inventories as well as supplies of oilfield equipment will combine to further squeeze prices and margins of oilfield goods. The average worldwide rig count is expected to reach 2,025 by 1988, an 11% increase over 1987 but still below 1986 levels. Domestically, the average U.S. rig count should grow by 10% to 825 rigs in 1988. Footage drilled in 1988 is also expected to improve by almost 22 million feet (18%) over the 1987 level, but still below 1986 activity. A net cash usage of $2.1 million is expected in 1988.

Major Risks and Opportunities

Achievement of the 1987 Plan faces risks arising from the general oil industry depression and the specific problems of operating under Chapter 11. These risks can be summarized as follows:

—Oil and gas prices may not stabilize as projected.

—LTV Energy Products Company might not regain its lost market share, especially in the capital goods market, and its favored position with suppliers and vendors.

—OPEC's willingness and ability to maintain stability in oil prices while increasing market share and remaining within the established production quotas might not be feasible.

—Employee retention.

However there are opportunities to improve the 1987 results which include:

—An improved political environment—The administration has expressed concern for national security, while Congress is indicating that trade-protective legislation is a priority.

—The natural gas surplus will continue but decline due to sharp reduction in deliverability replacement.

—A cold winter could spur gas well drilling in the spring of 1987, reducing the expected seasonal softness of the market.

—New exploration and drilling activity is expected to grow in the latter part of 1987 coinciding with the predicted rise in crude oil prices.

—Continued efforts to utilize idle plant capacity through the pursuit of outside machining and fabrication work which would aid financial performance.

EXHIBIT DD

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV ENERGY PRODUCTS COMPANY NET SALES & OPERATING INCOME
($ Millions)

	Forecast 1986	1987 Operating Plan 1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	Plan 1988
NET SALES							
Distribution	$ 179.1	$33.4	$28.6	$33.0	$40.0	$135.0	$142.9
Production Equipment	47.4	8.6	9.3	9.7	10.3	37.9	41.1
Drilling Equipment	48.7	5.2	6.6	4.9	4.8	21.5	22.8
Oil States	26.4	6.4	6.9	7.6	7.7	28.6	31.5
Eliminations/Other	(0.1)	0.2	(0.3)	(0.3)	(0.2)	(0.6)	(1.2)
Total	$ 301.5	$53.8	$51.1	$54.9	$62.6	$222.4	$237.1
OPERATING INCOME/ (LOSS)							
Distribution	$ (18.0)	$(0.1)	$(0.2)	$ 0.1	$ 1.1	$ 0.9	$ 2.5
Production Equipment	(5.3)	(0.4)	(0.3)	(0.1)	—	(0.8)	0.1
Drilling Equipment	(14.1)	(0.5)	(0.3)	(0.6)	(0.3)	(1.7)	(1.0)
Oil States	(1.2)	(0.1)	—	0.2	0.3	0.4	1.0
Eliminations/Other	(0.2)	(0.2)	(0.1)	(0.1)	—	(0.4)	(0.5)
Total	(38.8)	(1.3)	(0.9)	(0.5)	1.1	(1.6)	$ 2.1
Interest Expense and Other (net)	(35.8)	(1.2)	(1.3)	(1.2)	(1.3)	(5.0)	(4.8)
Loss Before Taxes	(74.6)	(2.5)	(2.2)	(1.7)	(0.2)	(6.6)	(2.7)
Special Charges	(168.0)						
Income Tax Charges	(0.3)	(0.3)	(0.3)	(0.3)	(0.3)	(1.2)	(1.2)
Net Loss	$(242.9)	$(2.8)	$(2.5)	$(2.0)	$(0.5)	$ (7.8)	$ (3.9)

EXHIBIT EE

LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV ENERGY PRODUCTS COMPANY
MARKETING/OPERATING PLAN

	Forecast 1986	Operating Plan 1987	1988
DRILLING ACTIVITY (Average Rigs)			
United States	925	750	825
Canadian	180	160	175
Free Foreign	1,075	915	1,025
Worldwide	2,180	1,825	2,025
MARKET ASSUMPTIONS—U.S.			
Wells Drilled (Thous.)	43.1	37.5	44.9
Footage Drilled (Million Ft.)	144.0	124.0	146.0
PRODUCT GROSS MARGINS (%)			
Distribution	14.1%	17.5%	17.3%
Production Equipment	24.4	28.2	29.2
Drilling Equipment	16.1	29.8	29.7
Oil States	29.4	26.9	27.5
Total (Average)	17.6%	21.8%	22.0%

EXHIBIT FF

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

LTV ENERGY PRODUCTS COMPANY CASH FLOW
($ Millions)

	Operating Plan	
	1987	1988
SOURCES OF CASH		
Net Loss	$(7.8)	$(3.9)
Depreciation	7.2	7.2
Working Capital (Excluding Cash, Debt and Intercompany Items)	11.1	(0.5)
Total	10.5	2.8
USES OF CASH		
Capital Expenditures	2.3	2.3
Other	2.4	2.6
Total	4.7	4.9
Net Sources of Cash Before Debt Repayments and Intercompany Transfers	5.8	(2.1)
Debt Repayment	(1.7)	(0.5)
Transfers (To)/From LTV	(5.4)	2.5
Net Decrease in Cash Position	$(1.3)	$(0.1)

EXHIBIT GG

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN
LTV ENERGY PRODUCTS COMPANY
SUMMARY OF FINANCIAL POSITION
($ Millions)

	Forecast	Operating Plan	
	12/31/86	12/31/87	12/31/88
CURRENT ASSETS			
Cash and Short-term Securities	$ 2.7	$ 1.4	$ 1.3
Receivables (net)*	(3.9)	(2.0)	2.8
Intercompany Accounts (net)	(2.6)	2.8	0.3
Inventories	58.3	49.7	44.8
Other Current Assets	7.2	7.2	7.2
Total	61.7	59.1	56.4
CURRENT LIABILITIES			
Notes Payable to Banks	2.2	0.5	—
Accounts Payable	6.8	14.8	14.8
Other Accrued Liabilities	20.5	16.5	15.9
Current Maturities of Long-term Debt	0.1	0.1	0.1
Total Current Liabilities	29.6	31.9	30.8
WORKING CAPITAL	32.1	27.2	25.6
NONCURRENT ASSETS			
Property, Plant & Equipment (net)	27.0	22.2	17.3
Investments and Other Noncurrent Assets	120.7	122.6	125.2
Total Assets Less Current Liabilities	179.8	172.0	168.1
LESS NONCURRENT LIABILITIES			
Long-term Debt	0.1	0.1	0.1
Minority Interest and Other	4.8	4.8	4.8
Pre-Petition Deferred	408.2	408.2	408.2
Total Noncurrent Liabilities	413.1	413.1	413.1
SHAREHOLDER'S DEFICIENCY	$(233.3)	$(241.1)	$(245.0)

* Assumes most of LTVEP receivables are sold to LTV Sales Finance. The negative receivable balance represents reserves for doubtful accounts which will remain on LTVEP books until the collectibility of the underlying accounts is resolved.

CAPITAL PLAN

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

V. CAPITAL EXPENDITURES

(Also See Capital Expenditure Sections of the Individual Group Plans)

Introduction

Each business group of LTV prepared a capital budget which includes its planned spending by "major" and "general improvement" projects over the next two years. LTV categorizes major projects as those greater than $500,000 for Steel, greater than $300,000 for Aerospace and Defense and greater than $250,000 for Energy Products. General improvement projects are all projects which fall below the above stated limits.

The capital plan is project oriented and covers multiple years of spending while the annual capital budget covers expenditures in one year increments. The capital budget for the ensuing year is approved by the LTV Capital Expenditure Committee (CEC) and by the Board of Directors. Individual projects contained in these plans cannot be submitted for approval until after the capital plans have been reviewed and approved. Commitments or expenditures on major projects may *not* commence until individually approved. Each major project for Steel which exceeds $5 million requires Board of Directors approval. Each major project for Aerospace and Defense or Energy Products which exceed $1 million requires Board of Directors approval. General improvement project spending may commence upon the review and approval of the capital plans. The 1987 capital budget of $459 million (including operating leases) was approved by the LTV Board of Directors on November 21, 1986.

Steel Operations

The Steel Group projects $282 million of capital expenditures in 1987. These expenditures are considered necessary due to the drastic reductions in capital spending in 1985 and 1986 in an effort to maintain liquidity. Capital spending is expected to average $121 million in 1985 and 1986 as compared to the previous six-year average (1979-1984) of $480 million annually. Major planned expenditures for 1987 cover the steelmaking facilities at Indiana Harbor and include: A ladle metallurgy/vacuum degassing project at the BOF shop and initial preparation for the H-3 blast furnace reline. Other major spending is projected at Cleveland for gauge control improvements and a reline of the C-6 blast furnace and at Canton for the forge press improvements. Expenditures for the completion of the Indiana Harbor H-4 blast furnace reline, which has already been approved and is in progress, are also included in the 1987 budget. The 1988 planned capital expenditures of $230 million represent a decrease of $52 million from the 1987 Plan, due primarily to the completion of the H-4 reline. In 1988, however, spending is planned to start for the completion of the C-6 furnace reline at Cleveland and H-3 furnace reline at Indiana Harbor. Additional projects for gauge control improvements at Cleveland and Indiana Harbor as well as the completion of the ladle metallurgy/vacuum degassing project at Indiana Harbor are also major capital items in 1988. The Plan currently assumes *no* capital is expended on a Warren blast furnace reline.

Aerospace and Defense

Spending on major capital projects and general improvements in 1987 is planned at $120 million. Improvements anticipated to be placed on operating leases total $55 million, an increase of $35 million over 1986. The 1987 spending is primarily due to the Advanced Development Projects, ATACMS Program, C-17 Program and the pro-

posed Pedestal Mounted Stinger (PMS) Project. In 1988, spending and general improvements on major capital projects total $118 million, approximately the same level as 1987. Virtually all of LTVAD's capital spending in 1987 and 1988 relates to existing contractual commitments with customers. Improvements planned to be financed as operating leases increase in 1988 from $55 million to $68 million. The expenditures for 1988 relate principally to the same projects as in 1987.

Energy Products

The Energy Products capital expenditures of $2 million for both 1987 and 1988 represent a $3 million decrease from 1986. The Energy Group's capital expenditures for both 1987 and 1988 will be primarily focused on maintenance of existing facilities or reduction of operating costs.

Summary

The capital spending plans of each of the Company's operating groups is shown in more detail in the operating plans of the respective groups.

EXHIBIT HH

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

CAPITAL EXPENDITURES BY PROJECT CATEGORY
($ Millions)

	Operating Plan 1987	Operating Plan 1988
Major Programs and Projects		
Steel Operations	$234	$182
Aerospace and Defense	74	89
Subtotal	308	271
General Improvement Projects		
Steel—Rolls	18	18
—Other	20	22
Aerospace and Defense	46	29
Energy Products	2	2
Subtotal	86	71
Total Project Spending	394	342
Capitalized Leases and Interest		
Steel Operations	10	8
Total Property Additions	404	350
Operating Leases		
Aerospace and Defense	55	68
Total Capital Expenditures		
Steel Operations	282	230
Aerospace and Defense	175	186
Energy Products	2	2
Total Capital Expenditures	$459	$418

EXHIBIT II

THE LTV CORPORATION AND SUBSIDIARIES
1987-1988 OPERATING PLAN

CAPITAL EXPENDITURES BY GROUP AND MAJOR PROJECT
($ Millions)

	Operating Plan 1987	Operating Plan 1988
Steel		
H-4 Reline	$ 70	$ —
C-6 Reline	10	44
H-3 Reline	20	30
Ladle Metallurgy/Vacuum Degassing	60	16
Other Major Projects	73	93
Mill Rolls	20	18
General Improvement Projects	19	21
Capitalized Interest	10	8
Total Steel	282	230
Aerospace/Defense		
Aircraft Products Group		
Advanced Development Programs	$ 40	$ 50
C-17	2	3
Other Major Projects	1	2
General Improvements Programs	33	16
Operating Leases	30	45
Total APG	106	116
Missles & Electronics Group		
MLRS	6	2
ASAT	1	2
ATACMS	5	4
HVM	1	3
Hummer	1	1
Missle Development & Technologies	10	7
Other Major Projects	5	—

[EXHIBIT II, Continued]

	Operating Plan 1987	1988
Missles & Electronics Group (Continued)		
General Improvement Projects	15	28
Operating Leases	25	23
Total M&EP	69	70
Total Aerospace and Defense	$175	$186
Energy		
General Improvement	2	2
Total Energy	2	2
TOTAL CAPITAL EXPENDITURES	$459	$418

IOD/LD SEPPAA TRUSTEESHIP WORKING GROUP MINUTES OF DECEMBER 15, 1986

Attendees:

Mark Blank, LD	Harvey Lebson, CPD
Ray Collins, IOSD	Roger Lerner, LD
Robert Joy, IOSD	Jesse Paredes, CPD
Robert Klein, CPD	Al Rettig, ASD

1. Consolidated Pension Plan for Salaried Employees of Jones and Laughlin Corporation and Subsidiary Companys (Case No. 08382400)

2. Jones and Laughlin Pension Plan (Hourly) (Case No. 08382500)

3. Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 (Hourly) (Case No. 08383100)

Additional Attendees:

Allen Beard, ASD	Scot McCulloch, LD
Bill Beyer, LD	Martha Moeller, M&R
John Bjarnason, CPD	Lincoln Weed, LD
Dave Gill, CPD	Eugene Weinzweig, CPD
Lonie Hassel, LD	

Purpose of Meeting

The meeting of the IOD/LD SEPPAA Trusteeship Working Group was called to discuss the involuntary termination of the above listed pension plans (Plans) maintained by the LTV Corporation. The PBGC is aware that the Plans do not meet the minimum funding standard.

Background

1. The PBGC has received notice that a reportable event has occurred with respect to the Plans. The plan sponsor, LTV Corporation is in Chapter 11 proceedings.

2. The PBGC has involuntarily terminated a related plan, Republic Steel Salaried Plan (Plan), under the mandatory provisions of section 4042. The Plan did not have assets to pay benefits which were currently due. Please refer to the IOD/LD SEPPAA Trusteeship Working Group minutes of September 23, 1986.

3. The Plans requested and were granted minimum funding waivers for the 1984 plan years. The total amount of the waivers was $175 million and security was obtained. The Plans requested and were denied minimum funding waivers for the 1985 plan year in the amount of $205,253,272.

4. Martha Moeller presented a summary of the Plans' financial condition prepared by M&R. The estimated underfunding for vested benefits in the two hourly plans, Case Numbers 08382500 and 08383100, is $1.8 billion and the underfunding in the salaried plan, Case Number 083824, is $220 million. The cost of shutdown benefits is estimated to be in the range of $400 to $700 million in addition to the underfunding for vested benefits.

5. No employer contributions appear to have been made for the 1985 plan year. The Plans are in violation of the minimum funding standards. Some employer contributions appear to have been made in 1986 to amortize the 1984 waivers.

6. There are approximately 40,000 to 45,000 participants in pay status receiving approximately $31 million per month. An estimated 8,000 participants are entitled to shutdown benefits.

7. Mike Wells, Associate Director, IOD, presented an overview of LTV's financial situation with a concentration on its Steel Divisions. Mr. Wells represented that the probability that LTV can survive with the Plans intact is "de minimis."

Involuntary Termination

The group requested additional analysis before making a recommendation on involuntary termination. The financial and actuarial data presented to the group was based on information received by the PBGC to date.

Action Items

1. Martha Moeller was requested to analyze the Plans' cash flow situation and present her findings to the group on Thursday, December 18, 1986. The information to be assembled on each plan is:

a. Estimated annual increased loss if the Plans continue;

b. Estimated amount of benefits being paid above guaranteed levels;

c. Estimated amount of contributions required to bring the funding standards account into compliance;

d. Estimated annual amount of contributions required to maintain the funding standards account; and

F. Estimated cost of shutdown benefits.

2. Eugene Weinzweig was requested to obtain participant information by plan, plant and location.

3. Mike Wells was requested to prepare the following financial information:

a. Estimated cost per labor hour to carry the Plans;

b. Estimated cost of labor per ton of steel produced and the percentage the Plans represent per ton;

c. List of plants projected to be shutdown and their estimated date;

d. Obtain financial information on LTV's major entities and estimate the recovery of employer liability under SEPPAA; and

e. Determine LTV's ability to make required contributions.

4. William Beyer was requested to obtain written confirmation from LTV of their intent to make future contributions with respect to the Plans.

The group felt the analysis needs to concentrate on LTV's ability to fund the Plans on an ongoing basis to prevent their financial condition from deteriorating further.

LEBOEUF, LAMB, LEIBY & MACRAE
A Partnership Including Professional Corporations
1333 New Hampshire Avenue, N.W.
Washington, DC 20036
(202) 457-7500

December 16, 1986

Edward R. Mackiewicz, Esq.
General Counsel
Pension Benefit Guaranty Corporation
2020 K Street N.W.
Washington, D.C. 20006

RE: Jones & Laughlin Retirement Plan (EIN 34-0486510, PN 015) ("J&L Salaried Plan")

Jones & Laughlin Hourly Pension Plan (EIN 34-0486510, PN 016) ("J&L Hourly Plan")

Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 (EIN 34-0486510, PN 001) ("Republic Hourly Plan")

Dear Mr. Mackiewicz:

On behalf of our clients, The LTV Corporation and its affiliates within the LTV controlled group of corporations ("LTV"), this will confirm information previously given orally to you and other PBGC officials concerning the three plans identified above (the "Plans").

As you know, the Internal Revenue Service recently denied LTV's applications under the Internal Revenue Code ("Code") section 412(d) for funding waivers for each of the Plans with respect to plan year 1985. In addition, the Service revoked the waivers for each of the Plans previously granted with respect to plan year 1984. As a result, each of the Plans is currently not in com-

pliance with the funding requirements of ERISA section 302 and Code section 412.

I am authorized by LTV to tell you that, because LTV is currently in reorganization under Chapter 11 of the Bankruptcy Code, LTV cannot and will not make contributions to the Plans to eliminate the accumulated funding deficiencies arising upon the denial of the funding waivers identified above.

I am further authorized by LTV to tell you that LTV does not intend, and is not likely to have the ability, to fund the Plans for future years.

If you need any further information concerning these plans, please let me know.

Very truly yours,

/s/ Frank Cummings
FRANK CUMMINGS

[PBGC Logo] Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Dec. 18, 1986

This responds to your request for the opinion of the Pension Benefit Guaranty Corporation (the "PBGC") regarding a proposed profit sharing plan to be provided for individuals who are currently participants in the Pension Plan for , sponsored by A. Specifically, you ask whether the proposed plan will be considered a continuation of, or successor to, the Plan, adoption of which would cause PBGC to deem termination of the Plan ineffective.

The facts as we understand them as as follows. A has filed a Notice of Intent to Terminate the Plan with the PBGC and has proposed a termination date of December 16, 1986. The amount of unfunded guaranteed benefits for the Plan as of that date is approximately $1.1 million. A is currently operating under Chapter 11 of the Bankruptcy Code. B, your client, has made an offer to acquire A in the bankruptcy proceeding. B has proposed to provide coverage, after the acquisition, for former Plan participants in a standard profit sharing plan.

Based upon our review of your summary of the provisions of the proposed profit sharing plan, the PBGC will not assert that the adoption of the proposed profit sharing plan is a continuation of the Plan and will treat the termination of the Plan as effective upon completion of the distress termination requirements. Please note that the view expressed above is contingent upon the plan summary being an accurate description of the profit sharing plan. To the extent that the implemented profit sharing plan differs from the summary, this opinion cannot be relied upon as an indicator of the PBGC's position.

Very truly yours,

EDWARD R. MACKIEWICZ
General Counsel

IOD/LD SEPPAA TRUSTEESHIP WORKING GROUP MINUTES OF THURSDAY, DECEMBER 18, 1986

Attendees:

Mark Blank, LD	Robert Klein, CPD
Ray Collins, IOSD	Roger Lerner, LD
Robert Joy, IOSD	Al Rettig, ASD

1. Consolidated Pension Plan for Salaried Employees of Jones and Laughlin Corporation and Subsidiary Companies (Case No. 08382400)

2. Jones and Laughlin Pension Plan (Hourly) (Case No. 08382500)

3. Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 (Hourly) (Case No. 08383100)

Additional Attendees:

Allen Beard, ASD	Bill Beyer, LD
Dave Gustafson, CPRD	Martha Moeller, M&R
Lonie Hassel, LD	Scot McCulloch, LD
Lincoln Weed, LD	Mike Wells, IOD

Background

1. The above listed pension plans (Plans) were considered by the IOD/LD SEPPAA Trusteeship Working Group for involuntary termination on December 15, 1986. Please refer to the minutes of that meeting for details.

2. The group reviewed the status of the action items established at the previous meeting:

a. LD has received written confirmation from LTV's counsel stating that LTV cannot and will not make contributions to the Plans to eliminate the accumulated funding deficiencies arising upon the denial of the funding waivers by the IRS.

b. Robert Klein presented an analysis of LTV's ability to make ongoing contributions to the Plans. His conclusion was that LTV could not afford to maintain the Plans under their own optimistic projections. Bob felt that LTV's assumptions concerning the steel industry are reasonable; however, their assumptions concerning LTV's projections are optimistic. Bob submitted a memorandum to the group indicating that a projected cash flow of $300 million per year together with a planned cash build-up of just over $1 billion by the end of 1988 would not be sufficient to finance a plan of reorganization and the ongoing Plans. The group thus concluded that termination would occur; the relevant question was whether it would be now or later.

c. In response to the group's request, Martha Moeller of M&R presented an analysis of the Plans based on information available:

1. The DUECs as of December 31, 1986 were $384 million.

2. The Plans' estimated underfunding, assets less liabilities, without shutdown benefits is $2.4 billion.

3. The estimated increase in the underfunding is approximately $13 million on an annual basis.

4. The amount being paid to retirees and beneficiaries under the Plans is approximately $30 million per month of which an estimated $3 million per month is being paid in excess of guarantees.

5. The Plans have assets to carry them for approximately 4 to 5 years without additional contributions.

d. The group reviewed the situation with respect to shutdown benefits payable by the Plans. Due to the

lack of time, a detailed analysis by plant could not be completed. However, the anticipated total shutdown benefits payable from the Plans as of Decembr 31, 1987, is estimated to be $463 million. The total amount of shutdown benefits payable by the Plans is expected to increase to $554 million by December 31, 1988. Most of the cost of the shutdown benefits is attributable to the J&L plants. A review of LTV's business plan indicates that they have idled or plan to idle approximately 40 percent of the production capacity of the J&L plants and over 60 percent of the Republic plants. An analysis of the portion attributable to plants not already idled was not available.

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Privileged Attorney—

Client and Attorney Work Product Information

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Client and Attorney Work Product Information

[Deletions as in Administrative Record.]

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Privileged Attorney—

Client and Attorney Work Product Information

[Deletions as in Administrative Record.]

Involuntary Termination:

The group concluded that before a final decision could be reached to involuntarily terminate the Plans, the incremental cost of the shutdown benefits for the plants scheduled for shutdown in LTV's business plan needs to be analyzed. This information is to be obtained by Dave Gustafson.

[The following is an excerpt from Form 10-K for The LTV Corporation for fiscal year ended December 31, 1986.]

On August 19, 1986, certain bank lenders to the Company appealed the Retiree Order. Such appeal was rendered moot in October 1986, when a bill was signed into law which amended Chapter 11 of the Bankruptcy Code to require that LTV and its subsidiaries continue to pay through May 15, 1987 retiree medical and hospital insurance benefits which they were providing prior to their filing of petitions under Chapter 11. There are additional legislative proposals in Congress which, if enacted, may either continue such requirements or give priority to certain claims of retired former employees in the Chapter 11 proceedings. The Company expects that at a minimum the May 15, 1987 deadline will be extended.

At December 31, 1986, the aircraft products group had approximately 10,800 employees. Of these, approximately 5,600 are hourly employees, 4000 of whom are subject to collective bargaining agreements between the group and various unions. The United Auto Workers ("UAW") represents approximately 3,800 of the hourly employees primarily through the Dallas, Texas local of the UAW. The labor agreement was entered into on June 30, 1985, and will expire in July 1988.

At December 31, 1986, the missiles and electronics group had approximately 9,000 employees. Of these, approximately 3,900 are hourly employees, including approximately 2,300 of whom are subject to collective bargaining agreements between the group and various unions. The UAW represents approximately 2,300 of the hourly employees primairly through the South Bend, Indiana local. The labor agreement will expire in June 1988. Negotiations for an initial collective bargaining agreement covering approximately 950 employees at a Camden, Arkansas plant were unsuccessful and a strike commenced on June

22, 1986 and is continuing. Approximately 45% of the bargaining unit struck and were subsequently replaced in early July. Several meetings to negotiate were held thereafter, but no substantive progress has been made. The Company cannot predict the outcome of the negotiations or their effect on the missiles and electronics group.

As of December 31, 1986, the energy products group had approximately 1,400 employees, compared with 3,000 employees (excluding Republic Supply Division, which was sold) at December 31, 1985, and 3,200 employees at December 31, 1984. The majority of the hourly employees at the Houston and Garland, Texas facilities are covered under agreements with the International Association of Machinists and Aerospace Workers, which expire at the Houston facility on February 12, 1989 and at the Garland facility on April 1, 1987. Certain other hourly employees at the Houston facility are covered under an agreement with the International Brotherhood of Boiler Makers, Iron Shipbuilders, Blacksmiths, Forgers and Helpers which expires on February 12, 1989. See "Item 2. Properties—Energy Products."

ITEM 2. PROPERTIES

LTV has recently entered into a lease (which is subject to Court approval) to reduce the office space in LTV Center in Dallas from 223,000 square feet to 122,000 square feet. The new lease expires in July 1993. The following sets forth a description of the properties of LTV's four opening groups. Those Company facilities which the Company has determined to be necessary for future operations are generally adequately maintained and suitable for their operations.

Steel

The steel group currently has certain facilities and raw material interests that the steel group has identified as "primary", "supplementary" and "non-operating" in

an effort to prioritize its capital expenditures in steel, promote production efficiencies and develop a strategy to modify production to meet changing business conditions in the steel industry. Provisions associated with the idling or shutdown of non-operating facilities have previously been recognized by the steel group. See "Special Charges" note to the financial statements. The steel group is currently operating the supplementary facilities. The steel group presently intends to retain and utilize those facilities designated as primary, and to divest or otherwise dispose of those identified as non-operating. The steel group will continue to review its steel operations including the supplementary facilities, and classifications of particular facilities may change as future business conditions warrant.

[The following is an excerpt from Form 10-K for LTV Steel Company for fiscal year ended December 31, 1986.]

Excluding liabilities which are expected to be settled in a plan of reorganization, approximately 6 percent of the total charges are expected to result in cash outlays, most of which will take place within the next five years.

Special charges of $2,730,000,000 were provided as a result of the continuing adverse business and market conditions and to recognize the burdensome effect and the diminution of economic value resulting from the decisions after filing under Chapter 11 to wind down, shut down or dispose of facilities or businesses that were unprofitable or noncash generating. Special charges of $661,000,000 were recorded to writedown the following facilities and to provide for the related employee (other than pensions which have been recognized separately) and other associated costs: the Electric Furnaces and the Blooming Mill at the Pittsburgh Works; a coke and by-products facility and a slabber at the Indiana Harbor Works; the Cambell, Ohio seamless tubular mill; the remaining bar operations at the Chicago, Illinois plant with the exception of the 11 inch bar mill, wire mill and coke plant; the Hammond and Mahoning cold finished bar plants; the partial writedown of certain steelmaking facilities at the Warren plant; and the write-off of investments in and the cost of withdrawing from operations of a number of the Company's uneconomical coal producing facilities. On August 6, 1986, the Court permitted the Company to reject the Reserve Mining Company ("Reserve") partnership agreement. Following this action, the Company recorded a provision of $208,000,000 with respect to a liability for the Republic-Reserve, Inc. (a subsidiary of LTV Steel) share of Reserve's outstanding debt and related accrued interest and the Company's write-off of its investment in Reserve and two other ore ventures from which the Company does not expect to con-

tinue to purchase ore. The Company also recorded $600,000,000 for potential claims which may arise from the rejection of executory contracts. While management currently believes that it has made an adequate provision for the liabilities to be incurred in connection with the rejection of such executory contracts, there can be no assurance as to the amount of the ultimate liabilities, the impact of such liabilities on a plan of reorganization, or how such liabilities will be treated in a plan of reorganization. An additional $1,145,000,000 was recorded in the second and third quarters as an estimate for probable claims associated with the termination by the PBGC of the major steel salaried and hourly pension plans. See "Employee Benefits" note. Also, $116,000,000 was recorded for the write-off of debt discount and debt issue expense in order to adjust the carrying values of the debt issues to the estimated amount of the debtholders' claims in bankruptcy.

In May 1985, the Company indefinitely idled the primary steelmaking operations of the Aliquippa, Pa. Works. In connection with the idling, a special charge of $380,000,000 was recorded to provide for the reduction in economic value of the facility, as well as the personnel and other related costs associated with this action. Also, LTV Steel's results for 1984 included similar charges of $74,000,000 related to rationalizations and capacity consolidation.

INVENTORIES

The percentage of consolidated inventories valued on the LIFO method was 92 percent and 94 percent at December 31, 1986 and 1985, respectively.

IOD/LD SEPPAA TRUSTEESHIP WORKING GROUP MINUTES OF MONDAY, JANUARY 5, 1987

ATTENDEES:

Mark Blank, LD	Jesse Paredes, CPD
Ray Collins, IOSD	Al Rettig, ASD
Robert Joy, IOSD	Alta Underwood, CPD
Roger Lerner, LD	

The group was reminded that draft copies of the revised involuntary termination guidelines and the SEPPAA compliance letters have been distributed for comment. The due date is January 6, 1987.

1. Consolidated Pension Plan for Salaried Employees of Jones and Laughlin Corporation and Subsidiary Companies (Case No. 08382400)

2. Jones and Laughlin Pension Plan (Hourly) (Case No. 08382500)

3. Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 (Hourly) (Case No. 08383100)

Additional Attendees:

Dave Gill, CPD	Scot McCulloch, LD
Dave Gustafson, CPRD	Lincoln Weed, LD
Lonie Hassel, LD	Mike Wells, IOD

1. The above listed pension plans (Plans) were considered by the IOD/LD SEPPAA Trusteeship Working Group for involuntary termination on December 15, 1986 and December 18, 1986. Please refer to the minutes of those meetings for details.

2. Dave Gustafson presented revised estimated data concerning the Plans funding status, cost of shutdown benefits, due and unpaid employer contributions and monthly benefit payments:

a. Funding Status: The estimated underfunding of the Plans as of December 31, 1986, is $2.1 billion. This amounts represents the present value of vested benefits less plan assets net of due and unpaid employer contributions. The underfunding is expected to increase by an estimated $65 million as of December 31, 1987 and by an additional $63 million as of December 31, 1988.

b. Shutdown Benefits: The present value of shutdown benefits that would be guaranteed if a shutdown is declared before termination is estimated to be $400 million as of December 31, 1987. The estimated present value of nonguaranteed supplements attributable to shutdown is estimated to be $300 million as of December 31, 1987. The estimated amount of shutdown benefits that would be guaranteed will increase to $500 million as of December 31, 1988. The amount of nonguaranteed shutdown benefits is expected to remain constant through December 31, 1988. The approximate number of participants eligible for shutdown benefits is 6,100, thirty-six hundred from the Jones and Laughlin Plans and twenty-five hundred from the Republic Hourly Plan. Approximately two thousand participants have been granted shutdown benefits since January 1, 1986.

c. Due and Unpaid Employer Contributions: The estimated amount of due and unpaid employer contributions is $385 million as of December 31, 1986. This amount does not include waivers with security. The future contributions requirement for the Plans is $185 million annually. The annual amount of future contributions is $232 million in the event of complete shutdown.

d. The monthly amount of benefit payments is $30 million. Included in this amount is $3 million being paid for nonguaranteed supplements.

3. Mike Wells presented his finding concerning anticipated plant closings by LTV Steel Corporation. The anticipated closings will reduce LTV's capacity by one third. This includes several major facilities which are presently classified as indefinitely idled. The additional anticipated closings represent twenty-five percent of LTV's capacity.

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Privileged Attorney—

Client and Attorney Work Product Information

[Deletions as in Administrative Record.]

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Client and Attorney Work Product Information

[Deletions as in Administrative Record.]

The group concluded that the above analysis assumes conservative estimates. No additional reductions were taken based on changes in the economy, increase in liability by changes in assumptions and/or voluntary termination in less than one year.

Involuntary Termination

The group was unanimous in recommending that the Plans be involuntarily terminated due to failure to meet the minimum funding standards and to avoid unreasonable deterioration of the financial condition of the plans.

The next meeting of the IOD/LD SEPPAA Trusteeship Working Group was scheduled for Thursday, January 8, 1987, at 1:30 PM in the IOD Conference Room.

UNITED STATES DISTRICT COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

Civil Action No. 87-C-0232
Judge Owen

IN RE: JONES & LAUGHLIN HOURLY PENSION PLAN

PENSION BENEFIT GUARANTY CORPORATION
2020 K Street, N.W., Washington, D.C. 20006
Applicant,

v.

THE LTV CORPORATION, as Administrator of the Jones & Laughlin Hourly Pension Plan
2001 Ross Avenue, Dallas, Texas 75201-2911
Respondent.

CONSENT ORDER

[Filed Jan. 13, 1987]

Upon consideration of the Petition and Application of the Pension Benefit Guaranty Corporation for an Order to Show Cause, Appointment of a Statutory Trustee and a Decree of Pension Plan Termination, the Affidavits and Memorandum of Points and Authorities filed in support thereof, and the Order to Show Cause issued with respect thereto, and it appearing to the Court that The LTV Corporation has received notice of the Petition and the Order to Show Cause, and having consented to this order,

R.O.
[Robert Owen]

it is by this Court,

ORDERED: that the Jones & Laughlin Hourly Pension Plan is terminated, and it is,

FURTHER ORDERED: that the termination date of the Jones & Laughlin Hourly Pension Plan is January 13, 1987, and it is

FURTHER ORDERED: that the Pension Benefit Guaranty Corporation is appointed statutory trustee of the Jones & Laughlin Hourly Pension Plan, with all the powers conferred on such a trustee by Section 4042(d) of the Employee Retirement Income Security Act of 1974, *amended by* the Single-Employer Pension Plan Amendments Act of 1986, Pub. L. No. 99-272, 100 Stat. 237 (1986), 29 U.S.C. § 1342(d), *as amended*, and otherwise granted by law, and it is,

FURTHER ORDERED: that The LTV Corporation and any other person having possession, custody or control of any records, assets or other property of the Jones & Laughlin Hourly Pension Plan, shall transfer, convey and deliver to the Pension Benefit Guaranty Corporation, as statutory trustee, upon its request, all such records, assets or property.

Date: January 12, 1987

/s/ Robert Owen
United States District Judge

THIS ORDER is consented to by:

THE LTV CORPORATION, as Administrator of the Jones & Laughlin Hourly Pension Plan	PENSION BENEFIT GUARANTY CORPORATION
By: /s/ Frank Cummings FRANK CUMMINGS LeBoeuf, Lamb, Leiby & MacRae 1333 New Hampshire Ave., N.W. Washington, D.C. 20036 (202) 457-7500	By: /s/ John H. Falsey JOHN H. FALSEY Acting General Counsel Pension Benefit Guaranty Corporation 2020 K St., N.W. Washington, D.C. 20006 (202) 778-8820

[The following is an excerpt from Form 10-Q for The LTV Corporation for Quarter ended March 31, 1987.]

Operating income was $15.5 million for the first quarter of 1987 compared with $9.4 million in the first quarter of 1986. The increase in operating income was primarily due to improved gross profit and reduced administrative expense related to deliveries under a follow-on contract for the M-939 5-ton trucks. The increase in operating income was partially offset by lower income from the MLRS program as a result of the annual economic price adjustment having an effect of approximately $1.4 million and by reduced deliveries of rocket launchers.

Energy Products

Sales decreased to $56 million in the first quarter of 1987 compared with sales of $113 million in the first quarter of 1986. Sales declined for all product lines, with the greatest decrease being experienced in general merchandise. Tubular products, general merchandise, drilling equipment and production equipment sales decreased by $15 million, $24 million, $7 million and $9 million, respectively. These sales declines were primarily due to reduced activity in the domestic oil and gas industry as evidenced by a 43% decline in the average number of rigs operating in the United States (826 rigs operating in the 1987 quarter compared with 1,439 rigs in the 1986 quarter) and to the sale in 1986 of certain assets of Fibercast Company and of the assets of the Bearing Pad Division.

The group's operating income for the 1987 first quarter of $0.9 million was $4.6 million better than the 1986 first quarter loss of $3.7 million primarily due to lower product costs resulting from writedowns recorded in 1986 and to reduced operating costs, including depreciation and costs associated with workforce reduction programs.

Other Operating Considerations

The Company will continue to review its operations to determine which, if any, facilities should be considered for curtailment, idling, writedown or shutdown. Additional executory contracts will also continue to be reviewed to determine whether they should be assumed or rejected.

Interest Expense

Interest expense decreased by $70.6 million to $10.3 million in 1987 from the comparable 1986 quarter due to the Chapter 11 accounting practice of accruing interest only on those debt issues which initially have been determined to be fully secured. Interest expense would have been $61.2 million greater in 1987 if interest had been accrued on all debt.

Corporate Income (Expense), Net

Net corporate income of $5.6 million in the first quarter of 1987 increased by $1.3 million from the first quarter of 1986 principally due to an $8.4 million increase in interest income generated by higher average invested cash balances, partially offset by $4.0 million of bankruptcy administrative expenses incurred in the 1987 quarter whereas no such expenses were incurred in the 1986 quarter.

[The following is an excerpt from Form 10-Q for LTV Steel Company for Quarter ended March 31, 1987.]

The average operating rate at the Company's steel plants during the first quarter of 1987 was 93% compared with 62% in the fourth quarter of 1986 and 66% in the first quarter of 1986. The 1987 operating rate is based on a lower production capability than the 1986 rates, reflecting idled and shutdown facilities. Raw steel production decreased by 3% to 2.90 million tons in the first quarter of 1987 from 2.98 million tons in the first quarter of 1986.

The operating income for the first quarter of 1987 of $99.6 million improved by $163.6 million from the 1986 first quarter operating loss of $64.0 million. The improvement in operating results for the first quarter of 1987 was due, in part, to savings that resulted from elimination of substantially all past service pension costs, reduced costs related to rejected raw material contracts and reduced or eliminated costs associated with previously idled facilities (which had incurred average operating losses of approximately $10 million per month in the 1986 first quarter prior to their idling). In addition, successful cost reduction programs, the higher operating levels as a result of a work stoppage at a major competitor and a favorable product mix all contributed to the improvement.

The Company depreciates property using a variable production rate method. The noncash charges for depreciation were increased from the computed straight-line amounts by $8.4 million and reduced by $1.6 million in the 1987 and 1986 first quarters, respectively. During the first quarter of 1987, the Company utilized a depreciation rate of 121% as a result of the higher operating level, while in 1986 a 97% rate was used in order to maintain the 75% average required by the Company's policy. Depreciation was computed in accordance with

the modified straight-line method as described in Note (6) to these financial statements.

The Company will continue to review its operations to determine which, if any, facilities should be considered for curtailment, idling, writedown or shutdown. Additional executory contracts will also continue to be reviewed to determine whether they should be assumed or rejected.

Interest and Debt Discount Expense

Interest and debt discount expense of $6.9 million in the 1987 first quarter decreased by $35.4 million from the 1986 first quarter primarily due to the Chapter 11 accounting practice of accruing interest only on those debt issues which initially have been determined to be fully secured and due to an $8.2 million decrease in affiliated interest expense. Outside interest expense would have been $23.3 million higher in 1987 if interest and debt discount had been recognized on all debt.

Corporate Income (Expense), Net

Net corporate income of $2.4 million for the first quarter of 1987 increased by $1.6 million from $0.8 million in 1986 principally due to a $4.3 million increase in affiliated interest income due to increased cash advances to LTV, partially offset by $2.6 million of bankruptcy administrative expenses in the 1987 quarter whereas no such expenses existed in the 1986 quarter.

For information regarding income taxes, see Note (4) to these financial statements.

UNITED STATES SENATE
WASHINGTON, DC 20510

July 1, 1987

Ms. Kathleen P. Utgoff
Executive Director
Pension Benefit Guaranty Corporation
2020 K Street N.W.
Washington, D.C. 20006

Dear Kathy:

After many months of difficult negotiations, the United Steelworkers and LTV have reached a settlement on a new collective bargaining agreement. The proposal includes a pension arrangement to address the loss of retiree benefits resulting from PBGC's termination of LTV's pension plan. As you know, that action was a devastating blow to many retirees who saw their pensions reduced by as much as fifty percent.

We are deeply concerned about the possible reaction by PBGC to this new arrangement. Therefore, we strongly urge you to withhold any administrative or legal action that could frustrate the implementation of the new pension benefit arrangement until we have personally met to discuss this issue.

We look forward to working with you in a spirit of cooperation to protect the retirement security of the workers and retirees of LTV Steel.

Sincerely,

/s/ Howard M. Metzenbaum
HOWARD M. METZENBAUM
United States Senator

/s/ Louis Stokes
LOUIS STOKES
United States
Representative

/s/ Robert C. Byrd
ROBERT C. BYRD
United States Senator

/s/ John Heinz
JOHN HEINZ
United States Senator

/s/ Edward F. Feighan
EDWARD F. FEIGHAN
United States
Representative

/s/ James A. Traficant, Jr.
JAMES A. TRAFICANT, JR.
United States
Representative

/s/ Austin J. Murphy
AUSTIN J. MURPHY
United States
Representative

/s/ Dennis E. Eckart
DENNIS E. ECKART
United States
Representative

/s/ Tom Bevill
TOM BEVILL
United States
Representative

/s/ Joseph M. Gaydos
JOSEPH M. GAYDOS
United States
Representative

/s/ John Glenn
JOHN GLENN
United States Senator

/s/ Dick Armey
RICHARD K. ARMEY
United States
Representative

/s/ Howell T. Heflin
HOWELL T. HEFLIN
United States Senator

/s/ Richard Shelby
RICHARD SHELBY
United States Senator

/s/ Mary Rose Okar
MARY ROSE OKAR
United States
Representative

/s/ Ralph Regula
RALPH REGULA
United States
Representative

/s/ Peter J. Visclosky
PETER J. VISCLOSKY
United States
Representative

/s/ Joe Kolter
JOE KOLTER
United States
Representative

/s/ Martin Frost
MARTIN FROST
United States
Representative

/s/ Jay Rockefeller
JOHN D. ROCKEFELLER IV
United States Senator

/s/ Lawton Chiles
LAWTON CHILES
United States Senator

[PBGC Logo] Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington,
D.C. 20006-1806

Office of the Executive Director

July 2, 1987

The Honorable Ralph Regula
United States Representative
Washington, D.C. 20510

Dear Congressman Regula:

Today, I received your letter of July 1 requesting that PBGC withhold any action that may interfere with the implementation of a new pension benefit arrangement between LTV Steel Corporation and the United Steelworkers of America.

I am pleased to accept your invitation to meet with you to discuss the concerns of the Pension Benefit Guaranty Corporation. The PBGC will contact your offices to set a meeting date that will accommodate your schedule.

I appreciate your interest and concern, and look forward to meeting with you soon.

Sincerely,

/s/ Kathleen P. Utgoff
KATHLEEN P. UTGOFF
Executive Director

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In Proceedings for A Reorganization Under Chapter 11.
Case Nos. 86 B 11270 (BRL) Through 86 B 11334 (BRL) and 86 B 11402 (BRL) and 86 B 11464 (BRL)

IN RE: CHATEAUGAY CORPORATION, REOMAR, INC., THE LTV CORPORATION, *et al.*,
Debtors.

APPLICATION IN SUPPORT OF ORDER AUTHORIZING LTV TO ENTER INTO CERTAIN AGREEMENTS AND MAKE CERTAIN PAYMENTS

The LTV Steel Company, Inc. and related debtor companies ("LTV Steel"), submit this application for orders authorizing LTV Steel to enter into agreements or programs and to make certain payments with respect to retired employees. In support of their application, these debtors and debtors-in-possession state:

Introduction

1. On July 17, 1986 LTV Steel and related companies filed Chapter 11 petitions in this Court and were continued in the management and operation of their businesses and properties as debtors-in-possession. As a result of the filing of the Chapter 11 petitions the employees and retirees of LTV Steel experienced uncertainties and hardships. One immediate response was a strike at LTV Steel. LTV Steel concluded that it was essential that it enter into negotiations over provisions in its collective bargaining agreement applicable to union employees and retirees and make certain decisions concerning benefits for non-union retirees in order to ensure labor peace during their Chapter 11 proceedings, to achieve certain efficiencies and

cost savings, and to alleviate to some extent the hardship imposed on active and retired employees. Accordingly, the LTV Steel initiated bargaining with the USWA and after several months their negotiations produced agreements affecting union employees or retirees. Further, decisions affecting non-union retirees were reached. The debtors believe that these agreements and programs will achieve goals beneficial to the debtors, their employees and retirees, and their creditors.

2. LTV Steel therefore seeks the authorization of this Court to enter into agreements and programs and make payments in accordance with these agreements and programs. The principal agreement for which authorization is sought is a collective bargaining agreement, to be effective until the confirmation of an LTV Steel plan, between LTV Steel and the United Steelworkers of America ("USWA") covering designated facilities. The agreement (the "USWA Agreement") is broad in scope and complex in application. The letter agreements and term sheets, which comprise the principal terms of the USWA Agreement, are set forth in the accompanying Exhibit 1.* The USWA Agreement generally serves as a model for the Company's labor agreements with other unions. LTV Steel thus seeks authority to enter into agreements with other unions encompassing comparable terms as set forth in the USWA Agreement. LTV Steel also seeks authority to make certain payments to its non-union retirees pursuant to a program which seeks to provide benefits to non-union personnel comparable to those provided to union personnel. The provisions are set forth in Exhibit 2. Each of these agreements and programs will be described in greater detail below.

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* Copies of the exhibits hereto have been filed with the Clerk of the Court and are being provided to counsel for the official and unofficial committees herein, as well as to the United States Trustee.

The LTV Steel-USWA Agreement

3. The LTV Steel-USWA Agreement in conjunction with certain provisions of the agreement entered into between LTV Steel and USWA in 1986 is designed to create a comprehensive revision of certain terms and conditions of employment for union workers of LTV Steel which will remain in place until the confirmation of LTV Steel's plan of reorganization. The new Agreement will ensure stability in labor relations for the duration of LTV Steel's case, will provide for considerable savings in certain areas, promote an exciting, new approach to labor/management relations, and will relieve some of the hardships on employees and retirees as a result of LTV Steel's Chapter 11 case and the termination by PBGC of pension plans for both active and retired workers. The Agreement also settles outstanding litigation between USWA and LTV Steel which is pending in this Court. The Agreement is therefore very much in the interests of the estate and will enhance the ability of the Company to reorganize.

(a) *History*

4. The recent history of the relationship between LTV Steel and USWA provides a useful context for examination of the USWA Agreement. In 1986 for the first time in approximately 30 years, bargaining in the steel industry was conducted on a company by company basis rather than through an industry coordinating committee. LTV Steel was the first of the major steel companies to negotiate a 1986 agreement. It obtained the most substantial wage and benefit concessions from the USWA, $3.44 per hour, achieved by any of the major steel companies in the 1986 bargaining round. Such concessions were essential to avoid LTV Steel's bankruptcy. However, due to a sudden and significant deterioration in shipments, stagnant prices and contraction of liquidity, shortly after the 1986 agreement was executed, LTV Steel did file a Chapter 11 petition. Upon the filing, LTV Steel was obliged to cease

payment of pre-petition obligations, including obligations to retirees. The cessation of payment of retiree health and life insurance benefits led not only to a potentially crippling USWA strike, days after the Chapter 11 filing, but also to federal legislation, recently extended to September 15, 1987, mandating the continuation of such retiree health benefit programs by Chapter 11 debtors.

5. These events intensified LTV Steel's need to commence bargaining with the USWA to address a broad range of issues between the company and its union work force and retirees. The USWA's interest in bargaining, understandably not great given the concessions recently made in the 1986 negotiations, increased in January, 1987 after the Pension Benefit Guaranty Corporation ("PBGC") terminated the pension plans providing retirement benefits to hourly workers. Thus, negotiations which had been sought by LTV Steel as early as September 1986 began in earnest in the early spring of 1987.

6. The USWA's primary interest was in resolving pension issues. The USWA expressed difficulty with an attempt to negotiate any further reduction in the reduced wage rates established in April, 1986. LTV Steel raised other issues including manning and health insurance costs, as well as retirement benefits. LTV's objective was to reduce its total employment costs while dealing with the hardships caused by the termination of the pension plans. Both sides were aware that alternative routes to a resolution existed, including legal action under the Bankruptcy Code. This alternative might well have caused a strike, however, which would be devastating to the debtor and its creditors. A strike of the ninety-one day duration of the Wheeling-Pittsburgh strike would cost LTV Steel at least several hundred million dollars. Obviously, a strike of the six-month duration of the USX strike would cost much more. Either would jeopardize the reorganization prospects of the Company. Ultimately, both LTV and USWA concluded that both would benefit

if bargaining resulted in an agreement which would ensure stability until confirmation of LTV Steel's plan. Thus, in April 1987 LTV Steel set the stage for bargaining by obtaining this Court's authorization to make a one-time payment to retirees to relieve the immediate hardship caused by the reduction in pension payments as a result of termination of the pension plans, and LTV Steel and the USWA announced their mutual commitment to commence intensive bargaining with the goal of reaching agreement by May 1, 1987. Bargaining commenced and continued with extraordinary intensity and commitment on both sides to resolve the complex issues presented through an unprecedented and innovative restructuring of the labor agreement.

7. A tentative agreement was reached between the Company and USWA negotiators on May 13, 1987. After such an agreement is reached, it is put before the local union presidents for a vote. If the vote is favorable, the agreement is then submitted to the USWA International Executive Board and then the union membership. Unfortunately, when the agreement reached was put before the local presidents on May 14, 1987, the vote was unfavorable. All negotiations ceased, and both sides rescinded their offers.

8. Thereafter, on May 26, 1987, the unions resumed the bargaining process with the Company on a local basis. The Company, at that point, renewed its prior offer. On June 25, the agreement was again put before the local presidents, and this time the vote was successful. The agreement has been recommended by the local presidents and will be presented to the union members for a vote.

(b) *The Agreement*

9. The principal terms of the USWA Agreement are described in the term sheets and letter agreements in Exhibit 1. As noted, the USWA Agreement will govern the relationship between the parties until the confirmation

date of LTV Steel's plan. The effective date of the USWA Agreement varies depending upon the substance. For example, the pension provisions are retroactive to the date of pension plan termination; portions of the retiree insurance component will become effective on October 1, 1987, shortly after the retiree insurance legislation runs out. Negotiation of a post-confirmation agreement will commence 10 days after the filing of a disclosure statement. (The USWA Agreement may be reopened in April of 1990 to permit renegotiation of economic issues if confirmation has not been effected by that date.)

The USWA Agreement will ultimately generate annual savings to LTV Steel, over the 1986 agreement, of approximately $50 million. LTV Steel's total labor cash cost will be about $23 per hour (excluding profit-sharing and stock ownership plan charges), which is comparable to the costs of other major steel companies. LTV's costs are also less than costs of other industries in comparable areas.

10. The USWA Agreement is subject to certain conditions, including approval by this Court and the ratification of the agreement by the membership of the USWA. If the PBGC successfully acts to render economically ineffective any element of the agreement, or take action to reinstate LTV Steel's pension liabilities or to reduce guaranteed benefits, LTV or the union has the right to invalidate the USWA Agreement and reinstate the 1986 agreement, or go back to the bargaining table. Payments to active or retired employees under this USWA Agreement will offset in an equal amount any recipient's equivalent claim asserted against LTV Steel in this case, and will be offset in an equal amount by any equivalent benefit paid to such recipient pursuant to a trust created pursuant to Section 4049 of the Employment Retirement Income Security Act ("ERISA"), 29 U.S.C. § 1349. When this agreement becomes effective, the USWA will withdraw with prejudice its application to this Court for an injunction requiring certain payments to retirees, *USWA*

v. LTV Steel, Adv. Proc. No. 87-5016A, and its appeal of the orders terminating the two hourly pension plans, Second Circuit Docket Nos. 87-6100, 6102. LTV Steel will agree, for the duration of the USWA Agreement, not to move pursuant to Section 1113 of the Bankruptcy Code to modify the agreements with USWA in effect after the USWA Agreement is approved.

11. The USWA Agreement is comprised of eight principal components. Through negotiations the parties have agreed to a new plan which will cost per year approximately $71 million. At the same time, the parties addressed other issues—cost-sharing of insurance, job elimination and maintenance craft efficiencies—which ultimately will save approximately $50 million per year.

(i) *The LTV Steel/USWA Pension Plan*

This component of the USWA Agreement is a qualified, non-guaranteed defined contribution pension plan. LTV Steel believes the change from a defined benefit to a defined contribution plan is significant, as it is essentially funded as earned. The plan provides essentially for a base formula of cents per hour for all employees, except that employees with 15 years or more of service may instead receive a benefit under a percentage formula. This agreement covers active employees and was designed to provide benefits for future service. The annual cost of this plan is estimated at approximately $31 million.

(ii) *Manning Agreements*

This component of the USWA Agreement commits the parties to a reduction of approximately 500 specified jobs, the annual average cost of each of which is $40,000. The total savings to LTV Steel will therefore be in the range of $20 million once the program is fully implemented, although retirement inducement incentives in the first year, scheduled at $1000 per

year of service up to a maximum of $25,000, may be expected to eliminate as much as one-half the savings in the first year.

(iii) *Craft Consolidation Agreement*

This component of the USWA Agreement allows LTV Steel to attain a more efficient, highly skilled and flexible craft work force and will, in the future, result in an annual savings of $12 million. Both this and the manning agreement signal a positive change toward the goal of maximizing the utilization of the workforce.

(iv) *Health and Life Insurance*

Having recognized that insurance cost controls are essential, the parties have agreed on a change in the program which maintains benefit levels but requires contributions by the participants, resulting in an annual savings to LTV of $20 million. The prior annual cost was $150 million, so the savings constitutes a nearly 13% reduction.

The USWA Agreement provides that both active and retired employees contribute $26.82 per month for insurance. The $7 million which must be contributed by active employees will be paid through a deduction from annual profit sharing due pursuant to the 1986 agreements. If, in a given year, LTV Steel has insufficient profits to permit the deductions, the deductions will be taken from the profit sharing of the next profitable year.

The $13 million which must be provided by retirees will either be deducted from payments due individual retirees or will be collected directly. Contributions made by retirees may be refunded in certain circumstances to them from profit sharing due active employees in any year in which profits exceed $200 million.

(v) *Spousal Benefit*

This component of the USWA Agreement provides an insured benefit to spouses of current employees who die in service. Benefits are set at $250 per month until age 60 and $100 per month thereafter for life. Benefits are funded by the purchase of life insurance annuities. The cost of such an annuity will be offset by any amounts due the employee in excess of $3500 under the LTV Steel/USWA pension plan. The cost of this program is estimated at $1.7 million per year.

(vi) *Individual Account Trust*

This component of the USWA Agreement provides benefits to alleviate the hardship caused by the loss of benefits as a result of the termination of the pension plans. The proposed structure for implementation of the program is a non-qualified, pay-as-you-go, conduit trust which is neither a defined contribution nor a defined benefit plan, but which includes useful aspects of each and which falls without the regulatory jurisdiction of any agency except the Department of Labor. The first year cash cost is estimated at $34 million.

There are four categories of participants in this program. First, current retirees will receive a benefit to replace any lost pension benefit which will comprise 90% to 100% of the lost benefit, depending upon how much PBGC is paying the retiree. With each added dollar paid by the PBGC, the percentage paid of the lost pension benefit decreases by 0.25%. The scale is keyed to the hardship of the retire. For example, if the PBGC payment is greater than $560, the retiree gets 90% of the amount lost; if less than $390, 100%.* The first year cash cost is estimated at

* The PBGC may take the position that these payments either permit the PBGC to reinstate the plans or make a concomitant reduction in its payments to retirees. If the PBGC takes action intended to vitiate the purpose of the USWA Agreement or reimposes pension liabilities on LTV Steel, then LTV Steel or the union may terminate this agreement and reinstate the 1986 agreement, or go back to the bargaining table.

$33.7 million, representing replacement of 92.25% of lost benefits. Second, vested active employees could receive payments which total 75% of benefits lost at plan termination, as well as certain severance benefits under the lump sum severance program. The annual cost of these payments is estimated at less than $1 million per year in the first year and gradually increasing over time. Third, "frozen" participants, of which there are few, who were employees of facilities sold by LTV, will get 75% of benefits lost at plan termination. Finally, the program provides for benefits in the event of future shutdowns of LTV Steel plants. The benefits will total 75% of benefits lost as a result of plan termination.

(vii) *Disability Plan*

This component of the USWA Agreement provides for those with less than thirty years of service as of plan termination disability benefits totaling $900 per month if no Social Security payments are available, or $500 per month if Social Security is available; for those with more than thirty years of service, $400 per month is payable until Social Security is available. In a significant departure from prior agreements, a 75% of earnings cap is placed upon the aggregate of disability payments received from all sources. An employee receiving disability payments may instead elect to receive contributions under the LTV Steel/USWA Pension Plans. The annual cost of the disability plan is approximately $3 million.

(viii) *Extended Supplemental Unemployment Benefits (SUB)*

The program is designed to provide a weekly benefit to certain affected employees for the period between exhaustion of regular SUB eligibility or benefits and eligibility for retirement in the event of a permanent shutdown or prolonged absence due to layoff or disability. After exhaustion of regular SUB eligibility or benefits, an eligible employee will receive $173 per week of Extended SUB; total SUB benefits can in these circumstances provide income for up to five years.

12. Other agreements, the value of which is not immediately quantifiable but which are likely to be of great future importance to the Company, were also reached. A "Joint Policy Review Committee", which includes the president of LTV Steel and the President of the USWA, has been established. Another agreement reached fosters the growth of participative-high commitment work systems in the Company's plants. These systems, such as the one in place at the LTV Steel-Sumitomo electrogalvanizing facility, is an exciting new approach to workplace management, which has demonstrated greatly enhanced productivity and significantly higher quality of worklife for employees. A third agreement provides for tuition assistance to union workers who wish to apply for jobs requiring improved skills.

13. Finally, several peripheral matters are addressed by the USWA Agreement. Provision is made for the reimbursement of $225,000 in fees for Lazard Freres & Co., investment bankers for USWA, for work relating to the Agreement. A number of letter agreements apply the overall USWA Agreement to specific plans.

14. In *toto*, the USWA Agreement comprises a complex, innovative structuring of the benefits and obligations of LTV Steel and its union work force and retirees. The

USWA Agreement provides ultimate annual savings of $50 million over the 1986 agreement.

The LTV Steel Non-Union Programs

LTV Steel also seeks authority to make pension payments pursuant to the LTV Steel Income Program and to modify the life insurance programs for participants in the terminated Jones & Laughlin and Republic Steel salaried pension plans. The retirees covered by this program retired from LTV Steel or various predecessor companies. LTV Steel believes that it has the right, pursuant to the various plans, to modify the programs of the retirees as follows:

(i) *Individual Account Trust*

As in the USWA Agreement, the proposed income program for non-union retirees also establishes an Individual Account Trust to alleviate the hardship caused by the loss of benefits resulting from the termination of their pension plans. The current retirees covered by the program will receive a benefit to replace any lost pension benefit which will comprise 90% to 100% of the lost benefit subject to a maximum monthly payment of $1,600. If the PBGC payment is greater than $550, the retiree receives 90% of the amount lost; if from $400 to $549, 95%; if less than $400, 100%. The annual costs for this portion of the program would be approximately $7 million.

(ii) *Life Insurance*

In order to reduce costs and save an estimated $4.8 million per year, LTV Steel, has proposed changes in the life insurance benefits for certain of its current, non-union retirees. No longer basing benefits on a percentage of salary at retirement, the new program provides a maximum of $20,000 face value life

insurance for these current retirees until age 66. At age 66 and older, a $5,000 death benefit would be provided. In no instance would a retiree's life insurance benefits be increased under this program.

Conclusion

LTV Steel respectfully requests that this Court authorize the execution of the agreements and programs and the making of the payments described in this application and in the accompanying Exhibits.

Dated: New York, New York
July 8, 1987

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5/13/87

1987 SETTLEMENT AGREEMENT

Whereas, the Union and the Company are aware of the hardships, risks and uncertainties associated with the bankruptcy proceedings, and

Whereas, active employees have made major sacrifices in the past, and

Whereas, thousands of retirees and active employees have suffered hardships as a result of the pension plan terminations, and

Whereas, thousands of retirees have suffered from uncertainty concerning continued medical and life insurance coverage, and

Whereas, the parties seek to protect active employees and retirees against such hardship and uncertainty, and

Whereas, the parties also seek to enhance the Company's ability to reorganize, and

Whereas, as a result of the pension plan terminations, the bankruptcy proceedings and this hardship and uncertainty, the parties have entered into collective bargaining over new collective bargaining agreements including new benefit plans and other modifications to the current agreements, and

Whereas, the parties by entering into this agreement intend for the duration of the bankruptcy proceeding to protect wages, benefits and other contractual provisions and letters of understanding at levels preserved or established by this Agreement; therefore,

I. The United Steelworkers of America, ("Union") and LTV Steel Company, Inc. and LTV Steel Tubular Products Company (collectively referred to as "LTV Steel Companies" or "Company") agree that the current labor agreements (for the units covered by this Agreement as identified in

the attached Exhibit A) are incorporated and restated, except as expressly modified herein, to provide new labor agreements dated May 12, 1987:

(List of appendices to be added)

II. Implementation of the terms of this Agreement shall be subject to: (1) approval by the Bankruptcy Court of this Agreement; and (2) ratification of this Agreement by the USWA. The Company shall promptly apply to the Bankruptcy Court for such approval. Any failure of the Bankruptcy Court to approve this Agreement shall not constitute rejection of the 1986 Agreements. Procedures for ratification shall be initiated promptly by the Union and completed as soon as practicable following Court approval. This Agreement will be implemented, upon Bankruptcy Court approval of this 1987 Agreement and ratification by the Union, notwithstanding any appeal of the order of the Bankruptcy Court approving the Agreement. Except as otherwise provided herein, the portions of this Agreement changing the Basic Agreement and the Insurance Agreement as to active employees will be effective upon implementation; the portions of this Agreement changing the Pension Agreement will be effective retroactive to January 13, 1987; the portions of this Agreement changing the Insurance and Pensioners' and Surviving Spouses' Agreement as to retirees will be effective on October 1, 1987; the portions of this Agreement changing the Supplemental Unemployment Benefits Agreement will be effective January 13, 1987; the portions of this Agreement changing the Employee Investment Program (EIP) will be effective according to their terms.

III. In the event for any reason at any time this Agreement or any of its provisions becomes unenforceable, or if the benefits or payments hereunder or

PBGC pension payments made as of May 1, 1987 are not realized on a continuing basis, either party shall have the option to cause the following to occur upon 72 hours' notice:

A. The provisions of the 1986 Agreements, as agreed to and entered into prior to this Agreement, will "snap back" and be in full retroactive and prospective force and effect effective immediately, subject to offset of payments and benefits claimed under those Agreements by any payments and benefits made under this Agreement, and enforceable to the extent otherwise permitted by law notwithstanding the dismissal of any action pursuant to Paragraph VI.

B. The parties will meet for the purpose of negotiating new agreements with alternative methods to provide the beenfits in question on comparable terms and at comparable costs to the Company as the plans and benefits disapproved or unenforceable.

IV. A. No later than ten days after Bankruptcy Court approval of a Disclosure Statement for a Plan of Reorganization, the parties shall meet for the purpose of negotiating a new Agreement. Except as otherwise provided below, this Agreement shall terminate upon the date of entry of an order confirming a plan of reorganization or the date when any stay of the order of confirmation entered by a court of competent jurisdiction expires or is vacated ("expiration date"). Upon such termination either party may resort to economic action.

B. If this Agreement has not terminated pursuant to Section A, either party may give written notice no later than 60 days prior to April 15,

1990 of its desire to renegotiate the economic provisions in this Agreement, and the parties shall meet within 30 days thereafter to negotiate with respect to economic conditions. If the parties fail to reach agreement by April 15, 1990, either party may resort to economic action.

V. A. Any payments or benefits provided to or on behalf of a participant in a pension or benefit plan under this Agreement shall be applied to reduce in an equal amount any equivalent bankruptcy claims encompassing a claim for such payments or benefits upon which distributions would otherwise be required to be made on behalf of such retiree or participant pursuant to the terms of the Company's plan of reorganization in respect to the Company's obligations to such retiree or participant under the Pension or Benefit Agreements.

B. Any payment or benefit paid to or on behalf of a participant in a pension plan by the Trust established pursuant to Section 4049 shall be applied to reduce in an equal amount any equivalent benefit paid under this Agreement.

VI. The Union, following approval by the Bankruptcy Court of this Agreement, the expiration of any time for an appeal from that approval or the ultimate affirmance of the Bankruptcy Court's approval, and ratification by the USWA, agrees to dismiss with prejudice its suit for retirement benefits currently pending in the Bankruptcy Court (Adversary Proceeding No. 87-301A) and its appeals from the District Court's dismissals of the Union's actions to vacate the District Court's orders approving the PBGC's termination of the pension plans (Second Circuit Court of Appeals

Nos. 87-6100, 6102). The Union agrees to seek an immediate stay of the Bankruptcy Court suit and the Second Circuit appeals pending Bankruptcy Court approval of this Agreement, final judicial review of any appeal from the Bankruptcy Court's approval, and ratification by the USWA.

VII. In consideration for the Union's agreement to this 1987 Agreement:

A. The Company agrees to waive and surrender any claim or right it has or might have in the future to seek relief pursuant to 11 U.S.C. Section 1113, hereby acknowledging that this Agreement is in full settlement of any such claim or right.

B. The Company agrees not to seek relief pursuant to 11 U.S.C. Section 1113.

This provision will not be effective if a "snap back" under Section 111A takes place.

Proposal

LTV STEEL INCOME PROGRAM COVERING PARTICIPANTS IN THE TERMINATED J&L AND REPUBLIC SALARIED PENSION PLANS

Effective Date:

October 1, 1986 for participants in the Republic salaried pension plan and January 14, 1987 for participants in the J&L salaried pension plan or as otherwise specified below.

Program Elements:

1. Establish Individual Account Trust

   - Covers retirees (RSC at 9/30/86; J&L at 1/13/87) and current actives with 10 years of service as of plan termination.
   - Covers sold unit employees only if retired prior to plan termination. Sold unit active employees are not covered but will be addressed under separate letter.
   - Provides percent of lost benefit in accordance with hardship scale for current retirees subject to a maximum monthly payment of $1,600.

PBGC Payment	*% of Lost Benefits*
Less than $400	100%
$400 to $549	95%
$550 or more	90%

   - Provides 75% of any lifetime benefit lost by actives with at least 30 years of service at date of Plan termination because of PBGC maximum—retirement and benefit may commence immediately but offset by PBGC benefit amount immediately payable—subject to a maximum monthly payment of $1,600. Retiree insurance coverage provided immediately in accordance with prior plan.

   - Provide 75% of lost benefit to a maximum monthly payment of $1,600 for actives with at least 10 but less than 30 years of service as of Plan termination. Eligibility is as follows:

     —Employees can retire at age 57 with 30 years of service. Payment commences at the later of age 57 or 30 years of service and is offset by PBGC amount immediately payable. Insurance commences upon retirement at age 57 or later except for those attaining 30 years of service prior to 1/1/88 who would be immediately eligible for retiree insurance.

     —Retirement at age 60, with 15 years of service.

     —Shutdown with at least 15 years of service and 55 years of age at date of shutdown or with age plus service at date of shutdown equal to at least 80; provide payment immediately based on accrued benefit. Shutdown with at least 25 years of service and not eligible for above will be eligible to receive payment commencing when 30 years of service would have been attained.

   - Offset by any 4049 trust settlement or a creditor settlement under Chapter 11 reorganization.
   - Offset by any hardship payment.
   - Payments retroactive to date of Plan termination or date of employee's retirement, if later.
   - Subject to approval by the bankruptcy court and appropriate government entities.

2. Pre-retirement Spouse Coverage

   - Provide 50% surviving spouse coverage to a maximum of $800 based on the amount that would have

been payable under this program to the employee at time of death.

—eligibility at 55/10, 30 years of service, age 65.

3. Defined Contribution Plan

- provide for loss of the accrued benefit under the terminated Plan(s) for active non-vested employees by applying the appropriate age related additive shown in the attached table for a period equal to half of recognized service at date of respective Plan termination.

DEFINED CONTRIBUTION PLAN
TEMPORARY ADDITIVE
NON VESTED EMPLOYEES ONLY

Age	Current Contribution	Temporary Additive
L 35	3%	1%
35-39	4%	2%
40-44	5%	3%
45-49	6%	4%
50-54	7%	5%
55-59	8.5%	5.5%
60 & Over	10%	6%

SALARIED RETIREE LIFE INSURANCE

Effective Date: October 1, 1987

Benefit:

Provide a maximum of $20,000 face value life insurance to all current retirees until age 66 is reached. At age 66 and thereafter, a $5,000 death benefit will be provided.

This provision will *not* serve to increase any retiree life insurance benefit currently in force. Thus, currently active salaried employees will continue to have a $5,000 post-retirement life insurance benefit applicable at any retirement eligible age.

6/30/87

LTV STEEL COMPANY
PROGRAM OF INSURANCE BENEFITS

Effective Date January 13, 1987.

Participants

Designated active employees of LTV Steel Company.

Benefit Provisions

The Program of Insurance Benefits in effect on January 12, 1987, except as amended by this document.

Program Eligibility

Employees who are eligible to participate in the Program of Insurance Benefits in effect on January 12, 1987, including effective January 13, 1987, employees eligible to receive benefits under the Disability Income Benefits Program, or under the Extended SUB Program. For employees not yet eligible to participate as of January 12, 1987 and for new employees, eligibility to participate begins upon the completion of 520 hours of actual work with LTV Steel Company.

Participant Contribution

Effective October 1, 1987, a $26.82 per month contribution for health care benefits will be required for each covered employee for either single or family coverage. A payroll deduction of cash contribution will not be collected from employees. However, this contribution will be recovered by the Company in accordance with the provisions of the Employee Investment Program. Any additional contributions required for HMO participation shall remain in effect.

Approval

May be subject to approval by the bankruptcy court.

The above is a summary outline of key features only.

6/30/87

LTV STEEL COMPANY
PROGRAM OF HOSPITAL—MEDICAL BENEFITS FOR ELIGIBLE PENSIONERS AND SURVIVING SPOUSES

Service

Service under the LTV Steel-USWA Pension Plan for retirements of deaths occurring on or after January 13, 1987.

Effective Date January 13, 1987.

Participants

Designated retirees and surviving spouses of LTV Steel Company.

Benefit Provisions

The Program of Hospital-Medical Benefits in effect on January 12, 1987, except as amended by this document.

Program Eligibility

Participants making the required contribution to the Program of Hospital-Medical Benefits who belong to one of the following groups:

A. Participants who are eligible to participate in the Program of Hospital-Medical Benefits for Eligible Pensioners and Surviving Spouses in effect on January 12, 1987. Surviving spouses of such retirees who die after January 12, 1987 are eligible to participate in the Program if eligible for a Surviving Spouse's Benefit under the J&L and Republic Hourly Pension Plans.

B. Participants who receive a distribution from the LTV Steel-USWA Pension Plan with: (1) 15 or more years of service and attainment of age 60,

or (2) under age 60 with 30 or more years of service as of January 12, 1987.

C. Participants who receive a benefit (other than a benefit paid to a Prozen Participant) under the Individual Account Trust.

D. Disabled employees whose eligibilty for Disability Income Benefits ceases as a result of age provided he continues to be totally and permanently disabled.

E. The spouse of a Participant as defined in B. through D. above who dies after January 12, 1987 provided such Participant was eligible for coverage under this Program and provided such spouse would have been eligible for a Surviving Spouse's Benefit under the Prior Plans and was enrolled in the Program as a dependent at the time of the Participant's death.

F. Spouses of employees (except those at sold facilities) who are eligible to receive a Pre-Retirement Surviving Spouse's Benefit.

Participant Contribution

Hospital Benefits and Physicians' Services Benefits—Effective October 1, 1987, a monthly contribution will be required for participation in the Program from each Participant including those enrolled in a Health Maintenance Organization (HMO) in accordance with the following schedule:

Monthly Pension	Monthly Contribution
$200.00 or less	0
$200.00-$226.81	Amount in excess of $200
$226.82 or more	$26.82

In no event will more than one monthly contribution be required from a married couple. The monthly contribution amounts may be subject to refund in ac-

cordance with the provisions of the Employee Investment Program.

Monthly pension includes total amounts or monthly equivalent amounts from the following sources:

- Pension Benefit Guaranty Corporation
- Individual Account Trust
- Pre-Retirement Survivor Benefit under the Program of Insurance Benefits; and
- LTV Steel-USWA Pension Plan

Participants eligible for hospital and physicians' service coverage under any other employer's insurance program, may elect to defer participating in this Program until the other coverage terminates, provided the Company is notified within 30 days of the termination of the other coverage. Proof of coverage and termination of such coverage shall be required by the Company.

HMO Participants will also be required to pay any additional contributions required for HMO participation.

Optional Major Medical Benefits will continue to be available to those who are enrolled in the basic coverages (Hospital Benefits and Physicians' Services Benefits) and make the required monthly contributions for Hospital Benefits and Physicians' Services Benefits and Optional Major Medical Benefi[illegible].

Approval

May be subject to approval by the bankruptcy court.

The above is a summary outline of key features only.

Pre-Retirement Surviving Spouse Benefit

Eligibility

A legally married designated employee of LTV Steel Company who died while still accruing service or while eligible to receive benefits under the Disability Income Benefits Plan or the Extended SUB Program, after having completed at least 15 full years of service with the Company. A legally married designated employee who was employed at a former LTV Steel or predecessor facility the employees of which, pursuant to a sale, were no longer earning service for benefit purposes under the Prior Plans as of January 12, 1987, shall also be eligible so long as the individual has completed at least 15 full years of service with the Company and the purchaser. A spouse of such individual will be entitled to benefits only if the individual dies while still accruing service.

Service shall be measured in the same manner as under the LTV Steel-USWA Pension Plan.

An employee who died prior to January 13, 1987 shall not be covered for benefits.

A person will be considered a surviving spouse if immediately after the eligible employee's death, the person is a widow or widower as defined in the Social Security Act, except that where such Act requires reference to the Law of the District of Columbia, the applicable law shall be that of the State of Ohio.

Period of Payment

The benefit shall be payable in monthly installments for the life of the spouse, with the first payment due on the first day of the month immediately following the employee's death, and the last payment due on the first day of the month during which the spouse shall die.

Such period of payment shall be subject to the Offset Provision noted below.

Amount of Payment

Subject to the Offset Provision, the monthly benefit shall be $250 until the month following the month in which the spouse shall reach age 60. After the spouse reaches age 60, and subject to the Offset Provision, the monthly benefit shall be $100.

Amount of Payment For Individual at Sold Facility

The monthly benefit at the death of an individual at a sold facility shall be equal to a fraction of $250 until the month following the month in which the spouse shall reach age 60. After the spouse reaches age 60, the monthly benefit shall be a fraction of $100. No Offset Provision shall apply. The fraction shall have a numerator equal to the individual's service with LTV Steel or its predecessor at the date of sale of the facility. The denominator shall be the individual's service (including the period with the purchaser) at date of death.

Offset Provision

The benefit provided under this program shall be reduced by the amount of monthly lifetime benefit that could be purchased for the spouse with the employee's account balance in the LTV Steel-USWA Pension Plan represented by Company contribution, and earnings, in excess of $3500, as of the last day of the month prior to the month of the death of the employee.

The reduction shall apply regardless of whether the spouse is a named beneficiary under that plan.

If such portion of the account balance is less than $2,000, such deduction shall be the amount of a

single-life annuity calculated by using the UP 1984 mortality table, setback 4 years, and the PBGC immediate annuity rate effective for terminations during the month of January in the year of the participant's death.

Except as provided below, if such portion of the account balance is $2,000 or more such deduction shall be the amount of the largest single-life annuity which could be purchased from an insurance company approved under the LTV Steel-USWA Pension Plan utilizing annuity purchase rates in effect at the date of purchase.

If such offset benefit is less than $100 per month, such reduction shall be made against both the $250 benefit and the $100 benefit.

If such offset benefit is $100 per month or more, the insurance company shall re-determine the amount of the single-life annuity which could be purchased with such portion of the account balance to provide a benefit after age 60 of $100 per month. The resulting re-determined amount prior to age 60 shall be offset only against the $250 benefit and no benefit shall be payable under this program after age 60. If such re-determined amount is $250 or more, no benefit shall be payable under this program.

The benefits described may be subject to the provisions of Section V of the Settlement Agreement.

Insurance Benefit

The monthly benefit payable after applying the Offset Provision shall be paid by an insurance company licensed in New York.

LTV Steel shall select the insurance company from which the benefit shall be paid.

LTV Steel may elect to insure the benefit by the payment of a premium on a [sic] annual basis to provide the benefit or, in the alternative, may purchase a lifetime annuity by payment of a single premium within 90 days after the death of an eligible employee where a benefit is payable. Premiums paid on an annual basis shall be sufficient to provide the lifetime annuity for any deaths occurring during the period for which the premium was paid.

Cost

The entire cost of the program shall be paid by LTV Steel.

Related Benefits

A surviving spouse eligible to receive a benefit under this program will receive benefits as described in the Program of Hospital-Medical Benefits for Pensioners and Surviving Spouses.

The above is a summary outline of key features only.

INDIVIDUAL ACCOUNT TRUST

DEFINITIONS

A "Participant" is an individual who is a Retired Participant, Vested Active Participant, Frozen Participant, Limited Participant, or Special Participant.

A Participant's "Accrued Benefit" shall be the life only monthly benefit that the Participant had earned under the J&L and Republic hourly pension plans (the "Prior Plans") as of January 12, 1987, calculated as if he had voluntarily severed employment at that date.

"Continuous Service" or "Service" consists of service under the Prior Plans which is continuous as of January 12, 1987, plus service under this program. Service under this program shall be measured in the same manner as under the Prior Plans, except that service will continue during the period when a Participant is eligible for benefits under the Extended Supplemental Unemployment Benefits or Disability Income Benefits.

A Participant's "Last Payment Date" shall, for a Participant who had completed at least 15 years of Continuous Service and had attained age 40 both as of January 12, 1987, be the month in which the Participant attains age 62. For all other Participants, Last Payment Date shall be the month in which the Participant attains age 65.

A participant shall "Retire", for purposes of this program, as of the date he specifies he wishes to sever employment and receive benefits, if eligible, under the program. In no event shall a Participant Retire later than the date benefits are payable under LTV Steel-USWA Pension Plan, nor earlier than the day following the last day for which he earns wages from the Company.

RETIREES

A "Retired Participant" is an individual (including the spouse of a deceased employee) who was receiving a monthly pension under the Prior Plans as of January 12, 1987. A Retired Participant shall also include the surviving spouse or co-pensioner entitled to receive a monthly benefit after the death of a Retired Participant. A Participant who became totally and permanently disabled prior to January 13, 1987 and who subsequently becomes eligible to receive a disability benefit from the Pension Benefit Guaranty Corporation ("PBGC"), or a retired employee who was not receiving a monthly benefit as of January 13, 1987 because he had received a special payment in lieu of a pension for January 1987 shall also be a Retired Participant.

Payments to Retired Participants

Subject to the following limitations, if the monthly benefit paid to a Retired Participant by the PBGC is less than the monthly benefit that was being paid to the Retired Participant under the Prior Plans, the Retired Participant shall be entitled to a monthly payment under the program.

The amount of monthly benefit payable under this program shall be a percentage of the difference between the benefit that was being paid under the Prior Plans and the amount paid by the PBGC. Such percentage shall be as follows:

Amount Paid by PBGC	Percentage
0-\$390	100.00%
\$391	99.75%
\$392	99.50%
.	.
.	.
.	.
Increasing by \$1	Decreasing by 0.25%
.	.
.	.
.	.

Amount Paid by PBGC	Percentage
$410-$540	96.00%
$541	94.75%
$542	94.50%
.	.
.	.
.	.
Increasing by $1	Decreasing by 0.25%
.	.
.	.
.	.
$560 and over	90.00%

If a Retired Participant's monthly benefit under the Prior Plan would have decreased at some future date (due to attainment of age 62 or age 65 if a supplement had been payable under the "70/80" or Rule-of-65 provisions of the Prior Plans, or otherwise), such reduced monthly benefit shall be utilized in the preceding paragraph after such date. If, after such adjustment, the benefit being paid by the PBGC is identical to (or larger than) the amount that would have been payable under the Prior Plans, no further payments shall be made to the Retired Participant under this program.

Except as provided below, the first payment under the program shall be for February 1987. Future payments shall be made as of the 15th day of the month for that month. Payments for months prior to August 1987 shall be combined and paid in a lump sum, after reflecting the reduction for the "hardship payment" made in April 1987, as soon as practical after the ratification of the Settlement Agreement.

The first payment under the program for a Participant who became totally and permanently disabled prior to January 13, 1987, and who subsequently becomes eligible to receive a disability benefit from the PBGC shall be paid for the month following the month in which the Participant retired.

For an employee who retired in November or December 1986 or in January 1987 and who received a special payment, the first payment under the program shall be for the fourth month following the month of retirement.,

Except as indicated in the next two paragraphs, any prospective adjustment in payments made by the PBGC shall be reflected prospectively in the program. Any retroactive adjustment in payments by the PBGC shall also be reflected retroactively in the program. Such prospective or retroactive adjustment shall be made by substituting the revised PBGC amount in the calculation above.

If a Retired Participant was receiving a reduced pension under the Prior Plans as of January 12, 1987, due to a Worker's Compensation offset, the following additional clarification shall apply. For purposes of determining the amount of benefits payable by the PBGC, the net amount of benefits (after recognizing the Worker's Compensation offset) shall be utilized. The sum of (1) the benefits payable by the PBGC, (2) the amount, if any, payable under this program, and (3) the amount of Worker's Compensation shall not exceed the gross benefit payable under the Prior Plans unless Worker's Compensation alone exceeds that amount.

If the Participant was receiving a Rule-of-65 retirement under the Prior Plans and is not yet eligible for Social Security, the portion of the benefit payable hereunder arising because of the Increased Pension—Rule-of-65 provision under paragraph 3.5 of the Prior Plans shall be subject to a modified version of the reduction provision contained in such paragraph in respect to excess earned income. Such modificaton shall utilize a $6000 threshold.

If at the time of the death of a Retired Participant a monthly pension payment would have been payable under the Prior Plans to his spouse or co-pensioner, such spouse or co-pensioner shall also be eligible for monthly benefits under this program. The amount of monthly benefit payable to such spouse or co-pensioner after the death of the Retired Participant shall be the equal to the same percentage of the difference, if any, between the benefit that would have been paid under the Prior Plans and the amount paid by the PBGC to such spouse or co-pensioner as would have applied had such spouse or co-pensioner been a Retired Participant as of January 12, 1987.

MODIFIED "30 AND OUT" AND "60/15"

A "Vested Active Participant" is a designated employee of LTV Steel Company who was accruing Continuous Service under the Prior Plans as of January 12, 1987 and whose Continuous Service as of January 12, 1987 was at least 10 years, but less than 30 years. An employee who had attained age 60 as of January 12, 1987, and whose Continuous Service at January 12, 1987 was at least 15, but less than 30, years shall be excluded unless such employee retires before attaining age 62 and at retirement has at least 30 years of Continuous Service.

A Participant's "Earliest Commencement Date" shall be the later of (1) the month following the month in which he completes 30 years of Continuous Service or (2) the month following the month when he attains the age indicated below, based upon his completed years of Continuous Service at January 12, 1987.

Completed Years of Continuous Service At January 12, 1987	Age
29	50
28	51
27	52
26	53
25	54
24	55
23	56
22 or less	57

Payments to Vested Active Participants

If a Vested Active Participant Retires after completing 30 years of Service and prior to his Last Payment Date, a monthly benefit shall be payable from this program. Such monthly benefit shall be paid from the later of (1) the Participant's Earliest Commencement Date or (2) the month following the month in which the Participant Retires. It shall be discontinued as of the earlier of (1) the month preceding the month the Participant reaches his Last Payment Date, or (2) the month in which the [remainder of sentence illegible].

If a Vested Active Participant Retires after reaching age 60 but before age 65 with 15 but less than 30 years of Service, a benefit will be payable only if such Participant either was less than age 40 at January 12, 1987, or had less than 15 years of Continuous Service at that date, or both. Such benefit shall be payable from the month following the month in which the Participant Retires. It shall be discontinued as of the earlier of (1) the month preceding the month the Participant reaches his Last Payment Date, or (2) the month in which the Participant dies.

Except as provided in the next paragraph, the benefit payable to a Vested Active Participant shall be equal to 75% of such Participant's Accrued Benefit if such monthly benefit becomes payable for retirement in accordance with either of the two preceding paragraphs.

If the Participant has 15 but less than 30 years of Service at date of retirement, such benefit shall be reduced by 8/12 of 1% for each month, if any, by which the commencement date of the benefit precedes the month in which the Participant reaches age 62.

LIFETIME SUPPLEMENTARY BENEFITS

A "Limited Participant" is a designated employer of LTV Steel Company who was continuing to accrue Continuous Service under the Prior Plans as of January 12, 1987; and has completed at least 10 years of service as of January 12, 1987; and whose ultimate lifetime benefit payable by the PBGC is less than his Accrued Benefit as of January 12, 1987 under the Prior Plans due to the "phase-in rules" of ERISA Section 4022(b)(7) or to the maximum benefit limitations of ERISA Section 4022(b)(5). A Vested Active Participant or Special Participant may also be a "Limited Participant".

Payment to Limited Participant

The monthly benefit payable to a Limited Participant shall be equal to 75% of the difference between the Limited Participant's Accrued benefit and the "unreduced monthly benefit payable by the PBGC".

The "unreduced monthly benefit payable by the PBGC" shall be determined in the following manner:

If the Limited Participant had at least 30 years of Service at January 12, 1987, the [remainder of sentence illegible].

If the Limited Participant had at least 15 but less than 30 years of Service and had attained

age 40 at January 12, 1987, the actual lifetime benefit that would be payable to the PBGC at the later to occur at age 62 or actual date of retirement.

If the Limited Participant had at least 15 but less than 30 years of Service and had attained age 40 at January 12, 1987, the actual lifetime benefit that would be payable by the PBGC at the later to occur of age 62 or actual date of retirement.

In all other cases, the actual lifetime benefit that would be payable by the PBGC at the later to occur at age 65 or actual date of retirement.

The monthly benefit payable to a Limited Participant shall commence as of the later of (1) the month including the date as of which the unreduced monthly benefit payable by the PBGC commences or (2) the month following the month in which the Participant Retires. Such benefit shall be payable for the lifetime of the Limited Participant.

SHUTDOWN AND LONG TERM LAYOFFS

A Participant's "Date of Service interruption" shall be the first day the Participant is eligible (or would have been eligible, but for the Participant having at least 30 years of Service) for extended SUB benefits ("Extended SUB").

If a Vested Active Participant who incurs a Date of Service Interruption was not offered Suitable Long Term Employment (as defined in Section 1 of Appendix A of the Prior Plans) during the period, if any, of his eligibility for Extended SUB while he was under age 55 and his combined age and Service was less than 60, he shall be entitled to a monthly benefit. Such monthly benefit shall commence as of the month following the month in which his eligibility for Extended SUB ceases. If such Vested

Active Participant had completed at least 30 years of Service, benefits shall commence as of his Date of Service Interruption. Such benefit shall be payable to the earlier of (1) the month preceding the month the Participant reaches his Last Payment Date or (2) the month in which the Participant dies. The monthly benefit shall be $750, unless such Participant either had completed at least 30 years of Service or would have completed 30 years of Service within five years following his last day worked. In such event, the benefit shall be the larger of $750, or 75% of his Accrued Benefit plus $300. The $300 amount shall be subject to reduction, prior to eligibility for Social Security, for excess earned income, but only if the Participant was under age 55 and the sum of his age plus Service was less than 80 as of the date benefits commenced hereunder. Such reduction shall be at the annual rate of $1 for each $2 of earned income in excess of $6000 in any calendar year. Such reduction shall be administered in a manner analogous to paragraph 3.5 of the Prior Plans. Notwithstanding the foregoing, if the monthly benefit in any event will continue beyond the date when the Participant attains age 62, at that date the monthly benefit will be reduced by $300.

If a Vested Active Participant shall be entitled to a monthly benefit under more than one provision, only one monthly benefit shall be payable. Such monthly benefit shall be the largest benefit. Any benefits payable to a Limited Participant shall be in addition to benefits payable to a Vested Active Participant.

If a Vested Active Participant (who received benefits under this program after a Date of Service Interruption) is re-employed and subsequently again restires, the benefits, if any, to which he is entitled hereunder shall be determined based solely on

whether he has experienced a second Date of Service Interruption.

A "Special Participant" is a designated employee of LTV Steel Company who was continuing to accrue Continuous Service under the Prior Plans as of January 12, 1987; whose Continuous Service was at least 30 years as of January 12, 1987; and who reaches his Date of Service Interruption prior to attaining age 62.

Payment to Special Participants

The monthly benefit payable to a Special Participant shall be equal to $300.

The monthly benefit shall be paid from the month following the month the Special Participant reaches his Interruption of Service Date to the earlier of (1) the month preceding the month the Participant attains age 62 or (2) the month in which the Participant dies.

EMPLOYEES AT SOLD FACILITIES

A "Frozen Participant" is designated individual who was part of a former LTV Steel or predecessor facility the employees of which, pursuant to a sale, were no longer earning service for benefit purposes under the Prior Plans as of January 12, 1987. A Frozen Participant must also have been continuing to earn Service for eligibility purposes under the Prior Plans as of January 12, 1987 and must have completed at least 10 years of Service at date of retirement. A Retired Participant cannot also be a Frozen Participant.

Payments to Frozen Participant

Benefits shall be payable to a Frozen Participant in a manner analogous to those payable to a Vested Active Participant subject to the following clarifications.

If a Frozen Participant had less than 10 years of Service as of January 12, 1987, it is probable that no benefits will be payable by the PBGC on his behalf. In such event, such Participant will be entitled to lifetime benefits hereunder provided he had completed at least 10 years of Service when he severs employment with the successor employer. If such Participant had at least 30 years of Service at the time of such severance, he shall be entitled to benefits commencing with the later of (1) the Frozen Participant's Earliest Commencement Date or (2) the month following the month of such severance. If such severance occurs after reaching age 40 and completing 15 years of Service but before completing at least 30 years of Service, he shall be entitled to benefits commencing with the later of the month following the month he (1) attains age 62 or (2) severs employment. If such severance occurs before either reaching age 40 or completing 15 years of Service, or both, he shall be entitled to benefits commencing with the later of the month following the month he (1) attains age 65 or (2) severs employment. Such benefits shall be equal to 75% of his life only benefit earned under the Prior Plan at the date of sale of the facility. A Frozen Participant who severs employment with less than 30 years of Service may elect to begin benefits at age 60 or later. Such benefits shall be reduced by 8/12 of 1% for each month by which the commencement date of benefits precedes the appropriate date indicated in the preceding sentences.

Because "phase in" rules of ERISA Section 4022 (b)(7) may apply for Frozen Participants, and because benefits may be in excess of the maximum benefits of ERISA Section 4022(b)(3), the ultimate level of PBGC benefits may be less than a Frozen Participant's life only benefit earned under the Prior Plan at date of sale of the facility. In such event,

75% of the difference between such benefit and the unreduced monthly benefit, if any, payable by the PBGC shall be paid for the lifetime of the Frozen Participant. The commencement date of such benefit shall be the later of date of retirement or age 62 if the Participant had at least 15 years of service recognized by the PBGC. If the Participant had less than 15 years of service recognized by the PBGC, the commencement date shall be the later of date of retirement or age 65.

Temporary benefits may also be payable to a Frozen Participant. Eligibility for such temporary benefits shall be calculated in a manner analogous to Vested Active Participants, except that no benefits occurring at a Date of Service Interruption shall be payable.

DATE OF PAYMENT

Monthly benefits shall be paid as of the 15th day of the month for which it is payable. Subject to the more specific provisions applicable to Retired Participants, payments for months prior to August 1987 shall be combined and paid in a lump sum as soon as practical after ratification of the Settlement Agreement.

SPOUSE'S BENEFITS

A Participant, excluding a Retired Participant, may elect to provide a benefit payable to the Participant's Spouse in the event the Participant dies while benefits are being provided hereunder. Such spouse's benefits shall be subject to the following requirements:

- No spouse's benefit shall be payable unless elected by the Participant on a written form provided by the Company.

- Any such election shall be irrevocable and must be returned to the Company within a period beginning the date benefits commence (or, if later, the day after ratification of the Settlement Agreement) and continue for 60 days.
- No benefit shall be payable unless the Participant dies after the first monthly benefit is paid to the Participant.
- Unless the Participant is a Limited Participant, the spouse's benefit shall be payable only for the months when a monthly benefit would have been payable to the Participant had the Participant not died.
- The amount of the spouse's payment shall be 50% of the reduced monthly benefit that would have otherwise been payable to the Participant had the Participant not died.
- The spouse's payment shall not be payable to any other person after the spouse's death.
- The spouse's benefit, if elected, shall result in a permanent reduction in the benefit otherwise payable to the Participant. Such reduction shall be 1/24th of 1% multiplied by the number of months that benefits will be payable to the Participant, if the Participant survives, under the program. Notwithstanding the foregoing, such reduction shall be 12% if the Participant is a Limited Participant, or a Frozen Participant entitled to lifetime benefits. Such reduction shall not exceed 3% for any other Participant.

NON-DUPLICATION

No benefit shall be payable under the program while the Participant is receiving benefits under the SUB

or Extended SUB Program, or under the Disability Income Plan, nor shall any benefit be payable for any month during which the Participant is re-employed by LTV Steel or other subsidiaries of the LTV Company. No benefit shall be payable under the program to an employee receiving Worker's Compensation if contributions are also being made on his behalf to the LTV Steel-USWA Pension Plan for that month.

REDUCTIONS

Notwithstanding the other provisions of this program, any benefits otherwise payable under this program to a Participant other than a Retired Participant shall be reduced, on a dollar for dollar basis, by (1) any benefits received by the Participant from Worker's Compensation; (2) any benefits from any "qualified" retirement plan for a period of Service which is also recognized in calculating the Participant's Accrual Benefit; and (3) any severance allowance payable by the Company. Such reduction shall be made for each month when such duplicate benefits are payable.

OFFSET

The benefits described may be subject to the provisions of Section Y of the Settlement Agreement.

EMPLOYMENT AT SOLD FACILITIES

Unless agreements related to the sale provide that an individual may not retire under the Prior Plans (or under this program if the sale is subsequent to January 12, 1987) while employed by the successor employer, a Participant who is employed by a facility which has been sold by LTV, LTV Steel, or its predecessor or successor companies shall be eligible to receive benefits hereunder, provided the Par-

ticipant meets the eligibility requirements hereunder, even if the Participant remains employed by the purchaser. Notwithstanding any other provision of this program, all benefit calculations with respect to such Participant shall be based on the assumption that the PBGC will pay benefits at the same time and in the same amounts as if the Participant had then retired directly from the Company.

MAXIMUM BENEFIT

No benefit payable under this program will exceed $1,200 per month.

COST

The entire cost of the program shall be paid by the Company.

FUNDING

The Individual Account Trust Program shall be provided through a trust established to fund an excess benefit non-qualified money purchase plan. The Company will make contributions monthly, or less frequently in advance, to fund the benefits provided through the program. Such contributions shall be made to the individual account established for each Participant.

APPEALS PROCEDURE

If any difference shall arise between the Company and any designated employee who shall be an applicant for a benefit, or to whom a benefit shall be payable, as to such designated employee's right to a benefit or the amount of his benefit and agreement cannot be reached between the Company and a representative of the International Union, such question shall be referred to the Board of Arbitration established under the Basic Agreement applicable to pro-

duction and maintenance employees in the basic steel operations of the Company; provided however, that the President of the International Union (or his designee) has given written approval of such referral. The Board of Arbitration shall have authority only to decide the question pursuant to the provisions of this program applicable to the question, but it shall not have authority in any way to alter, add to or subtract from any of such provisions. The decision of the Board of Arbitration on any such question shall be binding on the Company, the Union and the designated employee. If any difference shall arise between the Company and any person who shall be or claim to be a co-pensioner or a surviving spouse, as to such person's right to a benefit under this program or the amount of such benefit, such difference shall be resolved by the Company and a representative of the International Union.

If such difference is not so resolved, it may, by written agreement to the Company and the President of the International Union (or his designee), be referred to the Board of Arbitration described above, which shall have authority as described above with respect to such difference, and if it is so referred, the decision of the Board of Arbitration shall be binding on the Company, the Union and such person.

APPROVAL

The Individual Account Trust is subject to approval by the bankruptcy court and may be subject to approval by appropriate government entities.

The above is a summary outline of key features only.

6/30/87

LTV STEEL COMPANY
DISABILITY INCOME BENEFITS FOR ACTIVE EMPLOYEES

PURPOSE

To provide disability income benefits (DIS) to employees who become totally and permanently disabled while employed by LTV Steel Company.

EFFECTIVE DATE

January 13, 1987.

ELIGIBILITY

Employees who belong to a group as designated by the Company.

SERVICE

Service shall be measured in the same manner as under the LTV Steel-USWA Pension Plan.

BENEFIT ELIGIBILITY

An employee will be eligible for benefits if he has, or will attain before a break in service occurs, fifteen years of continuous service, and was totally and permanently disabled for five consecutive months due to:

(a) a nonoccupational disability arising on or after January 13, 1987; or

(b) an occupational disability, except that, if an employee had fifteen or more years of continuous service on January 12, 1987, application for a permanent incapacity retirement must have been denied by the Pension Benefit Guaranty Corporation.

A break in service shall be considered to occur on the 2nd anniversary of a continuous period of absence from his last day worked.

BENEFIT COMMENCEMENT

It will be necessary for the employee to make application for benefits and such application must be approved by the Company. Benefits are payable beginning on the latest of:

(1) the date of application,

(2) the date benefits are requested to commence by the employee,

(3) the end of the period that Sickness and Accident Benefits are applied for and paid under the Program of Insurance Benefits or

(4) the end of a period equal to a period of any unused vacation.

DEFINITION OF DISABILITY

An employee is considered to be totally and permanently disabled if he has been totally disabled due to bodily injury or disease so as to be unable to engage in any employment of the type covered by the Basic Agreement and, the disability will, in the opinion of a qualified physician, be permanent and continuous during the remainder of his lifetime.

Disability incurred while the employee was engaged in or resulting from a criminal enterprise, or resulting from future military service which prevents him from return to work with the Company and for which he receives a military pension shall not entitle an employee to DIB benefits.

The continuation of total and permanent disability may be verified by medical examination at any reasonable time during the period that benefits are payable under the DIB Program or under the option to have contributions made to the LTV Steel-USWA Pension Plan.

DISPUTES

If any difference shall arise between the Company and any employee as to whether such employee is or continues to be totally and permanently disabled within the meaning of the above definition, such difference shall be resolved as follows:

The employee shall be examined by a physician appointed for the purpose by the Company and by a physician appointed for the purpose by a duly authorized repersentative of the International Union. If they shall disagree concerning whether the employee is totally and permanently disabled, that question shall be submitted to a third physician selected by such two physicians. The medical opinion of the third physician, after examination of the employee and consultation with the other two physicians, shall decide such question. The fees and expenses of the third physician shall be shared equally by the Company and the Union.

Disputes regarding eligibility for Disability Income Benefits other than whether an employee remains totally and permanently disabled or the amount of monthly benefits will be resolved by the Union and the Company. If the dispute cannot be resolved, it may be submitted to arbitration upon written approval of the International Union.

BENEFIT AMOUNT

For employees who had less than 30 years of service as of January 12, 1987, the basic benefit is $900 per month if the disabled employee is not approved for Social Security benefits. It is $500 per month if the disabled employee is approved for Social Security benefits.

For employees who had 30 or more years of service as of January 12, 1987, the basic benefit is $400 if

not approved for Social Security benefits. If approved for Social Security benefits, there is no DIB benefit for such employees.

The basic benefit will be reduced to an amount which when added to:

- Social Security benefits,
- Workers' Compensation, Occupational Disease or similar statutory law (except fixed statutory payments for the loss of, or 100% loss of use of, any bodily member or a benefit in the nature of an annuity, pension or payments of similar kind by reason of any laws),
- benefits payable by the PBGC,
- pensions and annuities to which the Company shall have directly or indirectly contributed (except the LTV Steel-USWA Pension Plan and the Employee Investment Program),
- other disability payments to which the Company shall have directly or indirectly contributed,

will not exceed 75% of base earnings (the standard hourly wage rate plus incentives of the employee's incumbent job as of the date of disability or of any higher paid job in which the employee worked at least 1,000 hours in the calendar year immediately preceding the year of disability on a monthly basis using 173.3 hours. For covered occupational disabilities existing on the Effective Date, the employee's incumbent job will be used to calculate the 75% income maximum unless Company records exist which verify that the employee worked at least 1,000 hours in higher paid job in the calendar year immediately preceding the year of disability.

The DIB Program benefit payable to a disabled employee will be recalculated annually based on current

year base earnings for the incumbent job which the employee held as of the date of disability or any higher paid job in which the employee worked at least 1,000 hours in the calendar year immediately preceding the year of disability and on current year payments from Company sources described above, Social Security benefits and occupational disability benefits. If the employee's incumbent job is eliminated, the current year standard hourly wage rate for the employee's Job Class will be used to calculate the 75% income maximum.

Monthly payments for the first and last month that DIB benefits are payable will be adjusted as follows:

- For the first month the benefit as determined above will be multiplied by a factor equal to A divided by B where

  A equals the number of days from the date that the DIB benefit is first payable to the end of the month and

  B equals the number of days in the month.

- For the last month the benefit as determined above will be multiplied by a factor equal to C divided by D where

  C equals the number of days from the first of the month to the date the DIB benefits cease and

  D equals the number of days in the month.

The Program assumes that an employee is approved for Social Security benefits unless he informs the program that he has applied for and been denied such benefits and provides a copy of the application to Social Security and the disapproval letter. In addition, the program may require that an employee appeal any Social Security denial, including appeal to an Administrative Law Judge.

In those instances in which an appeal of a Social Security denial is required, the Company will provide assistance in the preparation of the appeal. In addition, the Plan will pay reasonable lawyer's fees for the employee when it requires an appeal to an Administrative Law Judge.

BENEFIT PAYMENT PERIOD

Benefits cease as of the earliest of; attainment of age 62, the date the employee ceases to be totally and permanently disabled or the date of death.

For employees who become disabled after attainment of age 58 benefits can continue past age 62 as follows:

AGE AT DISABILITY	LENGTH OF BENEFIT
58	4½ years
59	4 years
60	3½ years
61	3 years
62	2½ years
63	2 years
64	18 months
65 or older	1 year

For those disabled due to an occupational disability on the Effective Date, age at the Effective Date will be substituted for age at disability (if current age is higher than 57). Length of benefits will be measured from date first eligible for DIB.

UNDERPAYMENTS AND OVERPAYMENTS

If the amount of the DIB Program benefit paid in any month is more or less than the amount determined in accordance with the Benefit Amount provisions, there will be a retroactive adjustment in the amount of DIB benefits, with repayment by the employee of any overpayment or payment to the employee of any underpayment. The employee will be

required to give any necessary authorization to permit deduction of any such overpayment from any amounts payable to the employee by or on behalf of the Company, including benefits (other than health care benefits), wages, pension and Individual Account Trust payments.

OPTION TO HAVE CONTRIBUTIONS MADE TO THE LTV STEEL PENSION PLAN

An employee who is eligible for benefits under the DIB Plan due to an occupational disability, will have the option to elect to have Company contributions made on his behalf to the LTV Steel-USWA Pension Plan in any month in which he is entitled to receive benefits under the DIB Program.

DIB benefits will not be payable during any month in which such option is in effect.

FUNDING

The DIB program will be provided through a separate Trust established under Code Section 501(c)(9) to which the Company will make contributions determined on the basis of annual actuarial valuations using generally accepted methods and reasonable acturial assumptions. Acturial valuations are to be performed by an actuary designated by the Company. Actuarial assumptions and methods are subject to review and agreement by an actuary designated by the Union. If the Company's and the Union's actuaries cannot mutually agree on actuarial assumptions and methods, the question shall be decided by a third actuary selected by mutual agreement of the Company and the Union. The fees and expenses of the third actuary shall be shared equally by the Company and the Union.

Contributions shall be made on a monthly basis to the Trust by the Company. The first contribution

shall be due to the Trust within 30 days of ratification of the Settlement Agreement. Such contribution shall be in a lump sum for the period from the Effective Date through the month for which the payment is being made. Until the first valuation is completed, the monthly contribution shall be $260,000. Monthly contributions shall continue based on the last completed valuation until the new annual valuation is completed. Any change in contribution required by that subsequent valuation will be effective retroactively to the first day of the plan year for which the valuation is prepared.

Notwithstanding the foregoing, as soon as practicable after the end of a plan year and after completion of the valuation as of the first day of the next plan year, the Company shall make any additional contribution required to fully fund the liability for benefit payments to employees who are disabled as of year end, unless the Company and the Union mutually agree to an alternative procedure. If the trust's assets at year end exceed such liability, the Company may discontinue monthly contribution until such excess has been fully recognized.

RELATED BENEFITS

Disabled employees will receive benefits as defined under the Program of Insurance Benefits for Active Employees, excluding Sickness and Accident Benefits.

Disabled employees are not entitled to contributions on their behalf to the LTV Steel-USMA Pension Plan while receiving benefits under the DIB Program except as allowed under the option in the DIB Program.

Disabled employees are not entitled to benefits from the Individual Account Trust while receiving benefits under the PIB [sic] Program (including contribu-

tions to the LTV Steel-USMA Pension Plan under the option in the DIB Program).

The benefits described may be subject to the provisions of Section V of the Settlement Agreement.

APPROVAL

The LTV Steel Company Disability Income Benefits Program may be subject to approval by the bankruptcy court and appropriate entities.

The above summary outline of key features only.

6/30/87

LTV Steel Company
Extended Supplemental Unemployment Benefits (SUB)

Purpose

In the event of permanent shutdown or prolonged absence due to layoff or disability provide a weekly benefit to certain affected employees for the period between exhaustion of regular SUB benefits and eligibility for retirement.

Effective Date

January 13, 1987 for shutdowns or for any break in service due to layoff or disability on or after that date.

Participants

Designated employees of LTV Steel Company.

Service

Service shall be measured in the same manner as under the LTV Steel-USMA Pension Plan.

Benefit

$173.00 for each full week of elibibility. Benefits for weeks that include receipt of state unemployment benefits, other compensation, or Trade Readjustment Allowance shall be adjusted to the lower of $173.00 or the result of a regular SUB weekly benefit calculation as determined in 1.0.a. and b.

Benefit Eligibility

Eligibility conditions of current SUB program apply during period of extended SUB with the following modifications:

An employee absent from work because of a shutdown must have a minimum as of the date

of shutdown or as of the last day worked if later of: age 55 with 15 years' service; age 50 with 20 years' service; or 25 years' service. However, an employee will not be eligible if his last day worked was more than two years prior to the date of shutdown.

Employee absent from work for two continuous years due to disability or layoff other than shutdown must have a minimum as of the last day worked of: age 55 with 15 years' service; age 50 with 20 years' service; or, 25 years' service.

An Employee whose layoff or disability commenced before January 13, 1987 shall be eligible for benefits if, as of the second anniversary of the date the layoff or disability commences, the Employee has a minimum of age 55 with 15 years' service; 25 years' service; or age 50 with 20 years' service provided that the employee shall have had 20 years' service as of the last day worked. However, an employee will not be eligible if his last day worked was more than two years prior to the Effective Date.

Employee absent from work due to layoff other than shutdown for 104 weeks during a period greater than 104 weeks but not to exceed 142 weeks (provided that such period shall begin no earlier than September 1, 1987 and shall start with the first week of layoff) must have a minimum as of the final last day worked in the 142 week period of: age 55 with 15 years' service; age 50 with 20 years' service; or, 25 years' service.

Employees with 30 or more years service are excluded from extended SUB.

Employee must be less than age 62 if eligible for an unreduced PBGC benefit at age 62. An

employee who had not, as of January 12, 1987, both attained age 40 and completed 15 years of service shall retain benefit eligibility to age 65. An employee, (1) who shall have had at least 20 years service as of his last day worked, (ii) who, as of the date of exhaustion of regular SUB, has not attained the age of 55 years, and whose combined age and years of continuous service shall equal 65 or more but less than 80 at the time an offer of SLTE is made (as that term is defined in Section 1 of Appendix A of the Prior Plans) and who refuses an offer of SLTE after Extended SUB coverage has commenced, shall not be eligible for a weekly benefit effective with the date of such refusal.

Extended SUB benefits follow exhaustion of regular SUB weekly benefits. Any remaining regular SUB credit units are canceled at the end of two years following the last day worked or the end of the period up to 143 weeks for employees on layoff other than shutdown for 104 weeks during the 142 week period.

Benefit Duration

Extended SUB benefits are payable for a maximum of five years from last day worked which includes any period of regular SUB eligibility.

The five year period shall be extended for those employees who are on layoff other than shutdown, for 104 weeks during a period greater than 104 weeks but not to exceed 142 weeks. The extension shall be the number of weeks the employee works during the 142 week period following the initial last day worked of the 142 week period.

Funding

Extended benefits are provided through SUB Plan trust fund.

Financing

Extended benefits will be paid from a separate class of advance benefit, and are to be recovered from the monthly (financial) obligation whe the financial position attains 100%.

Recovery of extended SUB advances shall not reduce the financial position of the SUB Plan below 50%.

Related Benefits

Active insurance will be continued during any month when the employee is entitled to Extended SUB benefits.

Benefit Offset

The benefits described may be subject to the provisions of Section V of the Settlement Agreement.

Approval

May be subject to approval by the bankruptcy court and appropriate government entities.

The above is a summary outline of key features only.

Lump Sum Severance Program

Eligibility

Any designated employee of LTV Steel Company (including a former employee of LTV Steel or a predecessor employer whose employment was terminated pursuant to a sale under a "lock and freeze" agreement) who retires after January 12, 1987 and is entitled to a benefit under the Individual Account Trust for one of the following reasons:

- Retirement after at least 30 years of service, including the period under SUB or extended SUB, excluding employees who had completed at least 30 years of service at January 12, 1987, except as indicated in the next subparagraph; or
- Retirement where a lifetime benefit is payable under the Individual Account Trust; or
- Retirement at age 60 or older, with at least 15 years of service, provided the employee had either not reached age 40 at January 12, 1987, or not completed at least 15 years of service at that date, or both.

An employee whose benefit is payable under the Individual Account Trust after eligibility for 60 months of SUB and extended SUB shall not be eligible for a lump sum benefit unless he had completed at least 30 years of service at the date of expiration of such SUB and Extended SUB or unless the employee is entitled to a lifetime benefit under the Individual Account Trust.

An employee who previously received a "Special Payment" under the J&L or Republic hourly pension plans ("the Prior Plans") shall not be eligible under the program.

A re-employed individual who receives a payment under the program shall not be eligible for a second payment under the program.

Service

Service as defined under the LTV Steel-USWA Pension Plan.

Time of Payment

The benefit shall be paid within 30 days after commencement of benefits under the Individual Account Trust.

Form of Payment

A lump sum from general corporate assets.

Amount of Payment

An employee entitled to receive only a temporary benefit under the Individual Account Trust shall receive a lump sum equal to 1.5 multiplied by 75% of his Accrued Benefit (as calculated as of January 12, 1987 under the Prior Plans), such product multiplied by the number of years such benefit is payable under the Individual Account Trust. Such number of years shall be expressed as years and months. Notwithstanding the foregoing, if the employee has 15 but less than 30 years of Service at the date benefits commence under the Individual Account Trust, such lump sum shall be reduced by multiplying it by one hundred percent minus the product of (a) 8/12th of 1% and (b) the number of months, if any, by which the commencement date of benefits under the Individual Account Trust precedes the month in which the employee reaches age 62.

An employee entitled to receive only a lifetime benefit under the Individual Account Trust shall receive

a lump sum equal to the life only monthly benefit payable under the Individual Account Trust, multiplied by the number of years from the date lifetime benefits commence under the Individual Account Trust to the month when the employee will attain age 75, such period not to exceed 20 years. Such number of years shall be expressed as years and months.

An employee who is entitled to both a lifetime benefit and a temporary benefit shall be entitled to a single lump sum equal to the sum of the individual amounts calculated in accordance with the two preceding paragraphs.

Any reduction under the Individual Account Trust for Worker's Compensation, any benefits paid from any qualified retirement plan, and any severance allowance payable by the Company shall not be reflected in calculating the amount of any lump sum payment.

Reduction For Other Payments

The benefits described may be subject to the provisions of Section V of the Settlement Agreement.

The above is a summary of key provisions only.

6/30/87
11:00 P.M.

LTV STEEL COMPANY
EMPLOYEE INVESTMENT PROGRAM

Purpose

To define changes to the priority of distributions from the Profit Sharing Pool.

Effective Date

January 1, 1988 and with respect to the Profit Sharing Pool distribution for 1987.

Benefit Provisions

The Employee Investment Program in effect on January 12, 1987, except as amended by this document.

Priority of Sharing Pool Distribution

Employees who have sustained a "Shortfall" as provided in paragraph 3(f) of the Employee Investment Program shall be paid first out of each year's Profit Sharing Pool, in chronological order in which such Shortfall occurred.

A $26.82 per month contribution for health benefits required for each designated active employee covered by the Program of Insurance Benefits will be accumulated by month and the current year total of such liability (including any unrecovered liability which shall be carried forward from a prior year) shall be recovered by the Company second.

If pre-tax, pre-Plan income of the Steel Group as described in paragraph 2.a. of the Employee Investment Program exceeds $200,000,000, then ten percent (10%) of such income in excess of the $200,000,000, but only up to the amount of cash left in the Profit Sharing Pool after distributions have

been made to the first and second priorities will be applied third to recovery by the participant of the prior year's $26.82 per month contribution for health care benefits (or such lesser amount applicable for participants entitled to a pension of between $200 and $226.82 per month) required from each designated retiree and surviving spouse covered by the Program of Hospital-Medical Benefits.

The balance in each year's Profit Sharing Pool shall be distributed to the employees who worked during such year in the same proportion as their Investments during such year bear to the total investments made during the year.

Health care benefits contributions (and retiree and surviving spouse recovery) paid out of the Profit Sharing Pool shall not increase the amount available for the Stock Ownership Plan.

Approval

May be subject to approval by the bankruptcy court and appropriate government entities.

The above is a summary outline of key features only and is subject to further revision.

6/30/87

LTV STEEL-USWA PENSION PLAN

1. *Adoption of the Plan*

The Company will adopt a plan to be known as the LTV Steel-USWA Pension Plan ("Plan"). The Company will establish a separate related Trust to hold and invest Plan assets. The Plan will provide for (a) monthly contributions by the Company ("Company Contributions") to each Participant's account in the Trust and (b) optional tax-deferred monthly contributions by Participants ("Employee Contributions") to their accounts in the Trust as permitted by Section 401(k) of the Internal Revenue Code.

2. *Effective Date*

The Effective Date of the Plan will be January 13, 1987. However, the Plan provision allowing Employee Contributions will be effective January 1, 1988.

3. *Participants*

Participants in the Plan will be USWA-represented employees of LTV Steel, and other hourly paid employees designated by the Company, who are working, or not working and accruing Service.

4. *Service*

Service shall consist of service under the J&L and Republic hourly pension plans as in effect on January 12, 1987 (the "Prior Plans") which is continuous as of the Prior Plans' termination date, plus service under the Plan. Service under the Plan shall be measured in the same manner as under the Prior Plans, except that service will continue during the period when a Participant is eligible for Disability

Income Benefits ("DIB") or Extended Supplemental Unemployment Benefits ("Extended SUB").

5. *Eligibility*

A Participant will be eligible to receive Company Contributions and to elect Employee Contributions while he is accruing Service, except that a Participant is not eligible for Contributions if he is eligible for DIB as a result of a non-occupational disability, and a Participant who is eligible for Extended SUB will be eligible for Contributions for a maximum of two years from his last day worked.

6. *Company Contributions*

For a Participant who has less than 15 years of Service as of the start of the year, an amount will be contributed monthly to a Participant's account equal to 40 hours times the number of weeks in the pay periods paid in the prior month, (or the number of weeks in the pay periods which would have been paid had the Participant been working) on or after the Effective Date, times an amount per hour based on the Participant's age at the start of the year:

Age on January 1	Amount per Hour
Under 30	$ .21
30-34	.29
35-39	.38
40-44	.49
45-49	.62
50-54	.78
55-59	.96
60 and over	1.14

For a Participant who has 15 or more years of Service as of the start of the year, a calculation will be made each month for each pay period paid in the prior month by multiplying the percent shown in the following table times hours paid in such pay period, limited to the number of weeks in the pay period times 40, times the Participant's hourly "Earnings

Rate" (base earnings, incentive, shift differential, Sunday premium, overtime excluding overtime premium, EPP, vacation and holiday pay for such month, and awards paid in the month for pay for lost hours of work, divided by hours paid in the month):

Age On January 1	Percent of Earnings
Under 35	3.0%
35 to 39	4.0%
40 to 44	5.0%
45 to 49	6.0%
50 to 54	7.0%
55 to 59	8.5%
Over 59	10.0%

For such Participant, for each pay period paid in the prior month the larger of the amount based on the Percent of Earnings calculation or the amount based on the Amount per Hour calculation described with the first table will be contributed to the Participant's account.

Hours paid and Earnings Rate, for such Union officials as were eligible for an earnings adjustment under the Prior Plans, and for members of the Pension and Insurance Committees described in the Basic Agreement, shall, for the purpose of calculating the Company Contribution only, be adjusted so as to be fairly representative of their normal hours paid and Earnings Rate had they not been absent on Union business. Otherwise, the Company Contribution for these Union officials shall be calculated in the same manner as for other Participants.

For a Participant who had less than 10 years of Service as of the Effective Date, the amount determined above shall be increased by 50% of the Amount per Hour contribution for the number of months of contributions equal to the number of

months of service which the Participant had as of the Effective Date.

Notwithstanding the foregoing provisions, a Participant who is eligible for benefits under the DIB (regardless of whether benefits are actually being paid) as a result of eligibility for occupational disability benefits will have Company Contributions made on his behalf to the Plan only if he elects for any month to have Contributions made, and the election will be subject to the following limitations:

(a) DIB benefits will not be payable during any month in which such election is in effect, and (b) Contributions to the Plan will continue only to the age at which benefits under the DIB Plan would have ceased, had the Participant been receiving such benefits.

7. *Legal Restrictions on Company Contributions*

If the Company is prevented by the benefit limitation provisions of the Internal Revenue Code from making all or part of a Company Contribution to a Participant's account under the Plan, the Company shall contribute such amounts in the following plan year or in succeeding plan years to the extent such amounts, when added to Company contributions made for such year or years, do not exceed the legal limitations.

8. *Employee Contributions*

Each Participant can elect (as permitted by Section 401(k) of the Internal Revenue Code) to contribute monthly on a tax-deferred basis from one percent to 10 percent (in whole percents) of his total earnings paid in the prior month, and up to 100 percent (in whole percents) of any profit sharing payment he receives under the Employee Investment Program (EIP) to the extent that the total contribution does not exceed 10 percent of his total earnings paid in

the year. Employee Contributions will be limited in accordance with Federal law. Employee Contributions will be reduced automatically by the Company as necessary to comply with the law and the 10 percent of earnings limitation. Participants will be notified in the event of any automatic reduction. If a Participant makes Employee Contributions above the legal limitations, they will be distributed to the Participant no later than April 15 of the year following the year of contribution.

9. *Vesting and Forfeiture of Contributions*

Company Contributions and investment income are vested after five years of service; they are immediately vested in the event of death or permanent incapacity. Employee Contributions and investment income are vested immediately. Non-vested Company Contributions and investment income will be forfeited in the event of termination; the forfeited amounts will be used by the Company to reduce future Company Contributions.

10. *Deposit of Contributions and Penalty for Failure to Deposit*

Company and Employee Contributions will be deposited on the fifteenth of the month following the month for which the contributions are being made, with the exception of the first Company Contribution for the period from the Effective Date through the pay periods paid in July, which will be paid within 15 days after the date of ratification of the Settlement Agreement.

If the Company should fail to make a deposit of Company Contributions (with the exception of a failure due to an Act of God) by the twenty-fifth of the month following the month for which the Contributions are being made, or for the first Company Contribution by the twenty-fifth day after the date of

Settlement Agreement ratification, the Company will be required to pay a penalty of one percent of the total amount of Company Contributions for each seven-day period or portion thereof by which the Contributions are delayed, with a minimum penalty of five percent of the total amount of Company Contributions. The penalty will be added to the deposit and allocated to Participants' accounts in the proportion that their Company Contribution bears to the total amount of Company Contributions. Errors, including omission, in individual Participant Company Contributions shall not be considered a failure to make a deposit.

Should the Company fail to deposit a Contribution within the time limits described above, the Union may, at its election, enforce the Contribution obligation by filing a grievance or commencing a legal action.

11. *Joint Committee*

A joint Company and Union committee ("Joint Committee") consisting of three members each will be created to: select a Trustee for the Plan; determine investment policy for the Plan; select investment managers and if agreed to be appropriate an investment monitor; establish the type of annuities to be offered by the Plan; select the insurance carriers from which the annuities will be purchased based on competitive bids; and oversee administrative matters. However, the Union members of the Joint Committee will have authority and responsibility with respect to USWA-represented Participants only. The Company will pay for expenses of the Joint Committee. The Company will also make its best effort to provide fiduciary insurance for committee members. Any Joint Committee disputes will be resolved by the Co-chairmen of the Company and Union Negotiating Committees.

12. *Investment*

The investment of Company Contributions will be determined by the Joint Committee. Participants will be allowed to select between two or more funds for the investment of Employee Contributions, and may change their investment option or transfer between funds monthly. Investment income will be allocated monthly to Participant accounts, based on account balances as of the first of the month. Investment expenses such as management and brokerage fees will be charged to the funds.

13. *Beneficiary*

If a Participant is married, the beneficiary will automatically be the spouse. A participant who is not married will be given the opportunity to select a beneficiary. In the absence of a selection, the beneficiary will be the Participant's estate.

14. *Withdrawal and Distribution*

No withdrawals of Company Contributions and investment income are permitted. Withdrawals of Employee Contributions (but not investment income) are permitted if the Participant is over age 59-½, or in the event of hardship as defined by federal regulations (which includes disability). The minimum withdrawal will be the lesser of $250 or the total amount of Employee Contributions.

Distribution of a Participant's entire account balance will occur upon a break in service. The normal form of distribution will be a joint and 50% spouse annuity, unless the spouse consents otherwise. This is required by law for a married Participant. Other forms of payment will include a life annuity without cash refund; a life annuity with cash refund; and other annuities as selected by the Joint Investment Committee.

With respect to the distribution of Company Contributions and investment income, a lump sum will be paid automatically if a Participant's account value is less than $3,500. Also, a Participant may elect, with spousal consent, that Company Contributions and investment earnings up to the greater of $10,000 or 10% of the amount be paid as a lump sum. Otherwise Company Contributions and investment income will be paid in the form of an annuity. A lump sum is available at each Participant's option (with spousal consent for a married Participant) for Employee Contributions and investment income.

If the total account value is at least $3,500, the Participant may elect (with spousal consent for a married Participant) to defer distribution until a later date, but not later than age 62.

15. *Miscellaneous*

a. *Recordkeeping*

Participant recordkeeping will be performed and related expenses paid by the Company.

b. *Trust Expenses*

Trust expenses will be paid by the Company.

c. *Account Statements*

Participants will receive account statements, as frequently as agreed to by the Joint Committee but at least annually, updating the value of their accounts.

d. *Reporting to Union*

The Company will provide to the International and each Local Union monthly reports by plant locations of Company and Employee Contributions paid to the Trust.

e. *Loans*

On or before January 1, 1989, a loan provision will be added to the plan which will allow Par-

ticipant loans up to 100% of the amount of Employee Contributions and investment income, subject to legal restrictions.

16. *Disputes*

If any difference shall arise between the Company and a Participant as to such Participant's eligibility or Contribution amounts and agreement cannot be reached between the Company and a representative of the International Union, such question shall be referred to the Board of Arbitration or the Arbitrator, as appropriate, established under the Basic Agreement, provided that the President of the International Union (or his designee) has given written approval of such referral. The Board of Arbitration or the Arbitrator shall have authority only to decide the question pursuant to the provisions of the Plan, applicable to the question, but it shall not have authority in any way to alter, add to or subtract from any such provisions. The decision of the Board of Arbitration or the Arbitrator or any such question shall be binding on the Company, the Union and the Participant.

17. *Rulings and Consent to Establish Plan and Trust; Remedies if Not Obtained*

In order to establish the Plan, it will be necessary to obtain from the Internal Revenue Service a ruling that the Plan qualifies under Sections 401(a) and 401(k) of the Internal Revenue Code and a determination that Company Contributions are deductible under Section 404 of the Code. If these rulings are not obtained, then the Union and the Company will negotiate to develop a comparable plan at comparable cost to the Company which can gain approval.

18. *Plan Benefit Offsets*

The benefits described may be subject to the provisions of Section V of the 1987 Settlement Agreement.

SALARIED PENSION PROGRAM

EFFECTIVE DATE: 10/86 REPUBLIC
1/87 J&L

PROGRAM ELEMENTS:

—INDIVIDUAL ACCOUNT TRUST
—ELIGIBILITY
—RETIRED PARTICIPANTS
—VESTED ACTIVE PARTICIPANTS
—PAYMENTS TO RETIRED PARTICIPANTS

PBGC PAYMENT	% OF LOST BENEFIT
LESS THAN $400	100%
$400 TO $549	95%
$550 OR MORE	90%
CAP @ $1,600/MONTH	

—PAYMENTS TO VESTED ACTIVE PARTICIPANTS

—75% OF LOST BENEFITS IF 30 OR MORE YEARS SERVICE @ DOPT
—$1,600/MONTH CAP

—75% OF LOST BENEFITS IF AT LEAST 10 BUT LESS THAN 30 YEARS @ DOPT

—$1,600/MONTH CAP
—30 & OUT WITH MINIMUM AGE OF 57
—15 & OUT @ AGE 60
—SHUTDOWN

—55/15
—RULE OF 80
—RULE OF 25 WITH PAYMENT COMMENCING WHEN 30 YEARS OF SERVICE WOULD HAVE BEEN ATTAINED

—PRE-RETIREMENT SPOUSE COVERAGE

—50% SURVIVING SPOUSE COVERAGE TO MAX OF $800

—ELIGIBILITY @ 55/10, 30 YEARS OF SERVICE, AGE 65

—DEFINED CONTRIBUTION PLAN

—CONTINUATION OF EXISTING PLAN FOR VESTED ACTIVES BASED ON % FORMULA

—TEMPORARY ADDITIVE PROVIDED TO NON-VESTEDS TO PROVIDE FOR LOSS OF ACCRUED BENEFIT UNDER TERMINATED PLAN

SALARY VERSUS HOURLY PENSION PROPOSALS

—NO PHASE IN OF 30 & OUT FOR SALARIED

—NO LUMP SUMS

—NO EXTENDED SUB

—NO 50/20 EARLY RETIREMENT ELIGIBILITY

—SALARY CAP @ $1,600/MONTH VERSUS $1,200/MONTH FOR HOURLY

SALARIED INSURANCE PROGRAM

—HEALTH CARE

—WITH SIGNIFICANT CO-PAYS ALREADY IN PLACE, *NO $26.82 PER MONTH CONTRIBUTION*

—REDUCE ELIGIBILITY FROM *AGE 60 TO AGE 57* WITH RETIREMENT 30 YEARS SERVICE

—LIFE INSURANCE

—FOR UNDER AGE 65 RETIREES INSURED FOR MORE THAN $20,000, REDUCE COVERAGE TO A MAX OF $20,000 UNTIL AGE 65, THEN $5,000 FOR LIFE, OR PRESENT AMOUNT OF LIFE INSURANCE IF LESS THAN $5,000

—RETIREMENTS ON OR AFTER JULY 1, 1986 HAVE RETIRED LIFE INSURANCE COVERAGE OF $5,000

SALARIED MANNING

—2.6% REDUCTION BY 6/30/88 FROM 1ST QUARTER 1987 BASE OF $6,409

—ABOUT 170 REDUCTIONS

—EXISTING SEVERANCE PROGRAM TO APPLY

UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

Case No. 86-B-11273 BRL through 86-B-11334 BRL inclusive, 86-B-11402 BRL and 86-B-11464 BRL

IN RE: CHATEAUGAY CORPORATION, REOMAR, INC., THE LTV CORPORATION, *et al.*, *Debtors*.

AFFIDAVIT OF KATHLEEN P. UTGOFF

I, Kathleen P. Utgoff, being duly sworn, hereby state that I am the Executive Director of the Pension Benefit Guaranty Corporation ("PBGC") and that I have held the position of Executive Director since August 1985. As Executive Director, I have personal knowledge of the adoption and application of substantive PBGC policies. The following statements in support of the PBGC's objection to the Motion for an Order Authorizing LTV to Enter into Certain Agreements and Programs and to Make Certain Payments are true to the best of my knowledge, information and belief.

1. The PBGC is a self-supporting United States Government agency that administers the pension plan termination insurance program established by Title IV of the Employee Retirement Income Security Act of 1974, *as amended* ("ERISA"). When a pension plan covered by the insurance program terminates without sufficient funds to pay benefits, the PBGC pays benefits under the plan subject to the limitations of Title IV of ERISA.

2. The termination insurance program set forth in Title IV of ERISA was enacted as a reaction to the tragedy that occurred when an underfunded defined benefit pension plan was terminated. The Studebaker case, in particular, was cited by Congress as an illustration of the need for a pension plan termination insurance system. Studebaker, the car manufacturer, operated for many

years. It had adopted a defined benefit pension plan, that is, a pension plan that promised the payment of specified amounts upon retirement after a required number of years of employment. In 1964, Studebaker went out of business. The pension plan that was to provide benefits to employees who had spent their working lives at Studebaker did not have enough money to pay those benefits. Because there was no pension plan termination insurance program, participants who expected to retire with regular income from the pension plan were left empty-handed or with an amount far less than the amount promised in the plan.

3. The pension plan termination insurance program was established to prevent a recurrence of the type of tragedy that occurred at Studebaker, not to provide funding for the ongoing retirement programs of operating companies. Nor was the program created to provide interim financing or bail-outs to financially troubled companies. For PBGC to undertake such tasks would be a fundamental transformation of its historic role, and would involve massive additional costs that would threaten the survival of the termination insurance program.

4. The purported termination of a plan, when combined with the establishment of new benefit arrangements designed to provide substantially the same benefits in the future as the terminated plan, is not a true plan termination that may result in the payment of PBGC guarantees. If PBGC were required to provide guaranteed benefits under such circumstances, it would be advantageous for any company whose pension plan has unfunded liabilities in excess of the termination liability imposed under Section 4062 of ERISA to "terminate" the insufficient plan and to adopt a new benefit arrangement that provides the benefits PBGC does not guarantee. This would result in payment by the PBGC, rather than by the company, of a major portion of the cost of the company's ongoing retire-

ment program. This result is completely at odds with the statute's purpose.

5. The PBGC has consistently upheld this principle. For example, in 1981, as a result of actions taken by Alloytek to terminate its defined benefit pension plan and to establish a new plan which provided substantially the same benefits, the PBGC articulated its policy regarding "follow-on plans" in PBGC Opinion Letter 81-11. A copy of the Opinion Letter is attached as Exhibit 1 and incorporated herein by reference. Also in 1981, the PBGC notified Facet Industries that it would not treat as terminated a defined benefit plan which was followed by supplemental arrangements to provide substantially the same benefits as the terminated plan. A copy of that letter is attached as Exhibit 2 and incorporated herein by reference.

6. More recently, the PBGC opposed the establishment by Wheeling-Pittsburgh Steel Corporation ("Wheeling-Pittsburgh") of certain programs that would substantially replace the benefits that the PBGC does not guarantee under several terminated pension plans. A copy of the letter explaining PBGC's position is attached as Exhibit 3 and incorporated herein by reference. On June 22, 1987, the United States District Court for the Western District of Pennsylvania denied the application of Wheeling-Pittsburgh and the United Steelworkers of America ("USWA") for approval of the follow-on plans and remanded the issue to the Bankruptcy Court. The District Court found that the new benefit packages should be addressed in Wheeling-Pittsburgh's plan of reorganization.

7. PBGC has consistently worked with companies who have terminated defined benefit pension plans to establish new retirement benefit plans in compliance with Title IV of ERISA. PBGC recently reached agreement with Wolf Baking Company and members of its controlled group of corporations on establishment of a new retirement benefit plan after termination of their defined benefit pension

plan. A copy of the PBGC letter approving their arrangement is attached as Exhibit 4 and incorporated herein by reference.

8. To determine whether one or more arrangements subsequent to the termination of an insufficiently funded defined benefit plan constitute an impermissible follow-on plan, the PBGC views all arrangements together, regardless of their stated purposes, and taking into account all relevant facts and circumstances. If all the arrangements, together with the guaranteed benefits paid by the PBGC under the terminated plan, provide for the payment of, accrual of, or eligiblity for benefits that are substantially the same as those provided under the terminated plan, the arrangements violate Title IV of ERISA because they effectively continue the terminated plan.

9. The PBGC views a set or arrangements as substantially the same if it grants credit for purposes of benefit accrual, or for eligibility for certain types of benefits, for service rendered under the terminated plan or if it provides for the restoration or reimbursement of benefits which would have been paid under the terminated plan but which are not paid by the PBGC because of the limitations set forth in Title IV of ERISA.

10. The PBGC does not view a set of arrangements as substantially the same merely because it provides a benefit based on hardship, so long as hardship is determined on a participant-by-participant basis and not on the basis of the amount of benefit reduction under the terminated plan caused by the limitations on benefits guaranteed under Title IV of ERISA.

11. After termination of a plan covered by Title IV of ERISA, the PBGC generally does not object to establishment of a traditional future service defined contribution plan for active participants with contribution to the plan based on a percentage of compensation for all participants. Such a plan provides a benefit based on a par-

ticipant's service with the employer after termination of the plan covered by Title IV of ERISA. The benefit provided under the plan is the amount available in the participant's account at retirement. Such amount is dependent upon the employer's contributions to the plan.

12. LTV and the USWA are well aware of the PBGC's position on follow-on plans. In addition to the public authorities set forth above, the PBGC has informed LTV and the USWA on numerous occasions during these proceedings that establishment of certain benefit programs after termination of a plan could, when viewed together, constitute a follow-on plan prohibited under Title IV of ERISA. When, on May 13, 1987, PBGC was orally informed for the first time of the nature of the proposed arrangement, the PBGC made clear to LTV that such an arrangement would not be acceptable under Title IV of ERISA.

/s/ Kathleen P. Utgoff
KATHLEEN P. UTGOFF

Subscribed and sworn to before me this 15 day of July 1987.

/s/ Dennis Tyner
Notary Public
DENNIS TYNER
Notary Public,
District of Columbia
My Commission Expires
January 31, 1992

[Exhibits 1-3 to the affidavit are reprinted at Pet. App. 159a-179a. Exhibit 4 is reprinted at JA 127.]

UNITED STATES BANKRUPTCY COURT
FOR THE SOUTHERN DISTRICT OF NEW YORK

Case No. 86-B-11273 BRL through 86-B-11334 BRL
inclusive, 86-B-11402 BRL and 86-B-11464 BRL

IN RE: CHATEAUGAY CORPORATION, REOMAR, INC.,
THE LTV CORPORATION, *et al.*,
Debtors.

AFFIDAVIT OF C. DAVID GUSTAFSON

I, C. David Gustafson, being duly sworn, am Manager of the Actuarial Policy Division of the Pension Benefit Guaranty Corporation ("PBGC"). I make the following statements in support of the PBGC's objection to the Motion for an Order Authorizing LTV to Enter into Certain Agreements and Programs and to Make Certain Payments.

1. As Manager of the Actuarial Policy Division I have studied the funding status of defined benefit pension plans covered by the pension plan termination insurance program administered by PBGC under the Employee Retirement Income Security Act of 1974, *as amended* ("ERISA"), including plans maintained by employers in the steel industry. I have participated in the preparation of proposals for reform of ERISA's minimum funding standards. In addition, I have participated in PBGC's consideration and review of proposals by LTV and the United Steelworkers of America ("USWA") to establish follow-on programs for the employees of LTV Steel Company. I also have been involved in the legal proceedings involving the USWA's request for "follow-on" relief in connection with the termination of the LTV Steel Company pension plans. Further, I have participated in PBGC's consideration and review of proposals by Wheeling-Pittsburgh Steel Corporation ("WP"), and Wheeling Pittsburgh Steel Corporation and the USWA,

respectively, to establish follow-on programs for the non-union and union employees of WP. Before assuming my present position, I was Chief of the Actuarial Operations Branch, In PBGC's Actuarial Services Division. In that capacity I reviewed the calculation of the contributions owed under ERISA's minimum funding standards to more than 500 pension plans of which PBGC is statutory trustee. The vast majority of these plans were sponsored by employers in bankruptcy proceedings.

2. PBGC has long been concerned with the nature of arrangements to provide retirement benefits established after termination of underfunded pension plans of which PBGC becomes statutory trustee. PBGC's basic concern in these cases has been to prevent the Title IV insurance program from being used to subsidize what is in fact an ongoing retirement program. Such a situation arises, for example, upon termination of an underfunded pension plan when the employer fails to pay for PBGC's guaranteed benefit liability and at the same time establishes a new "follow-on" program that provides non-guaranteed benefits accrued before termination, and provides for future benefit accruals or credited service for eligibility for subsidized early retirement benefits similar to what was provided under the terminated plan. The effect of such arrangements is that participants receive benefits as if no termination has occurred, while the employer is able to transfer much of the funding responsibility to PBGC.

3. Until its termination effective September 30, 1986, LTV Steel maintained the Republic Retirement Plan ("Republic Salaried Plan") for certain of its non-union employees. LTV Steel maintained the Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 ("Republic Hourly Plan"), the Jones & Laughlin Hourly Pension Plan ("J&L Hourly Plan") and the Jones & Laughlin Retirement Plan ("J & L Salaried Plan") until their termination effective January 13,

1987. Under the terms of the Republic Salaried Plan, the Republic Hourly Plan, the J & L Salaried Plan and the J & L Hourly Plan (collectively, the "Plans"), LTV Steel promised that retirees and their beneficiaries would receive fixed benefits calculated according to specified formulas based on a participant's age, length of service, and past earnings. LTV failed, however, to maintain adequate funding for these benefits.

4. In 1985, LTV requested that the Internal Revenue Service grant funding waivers for amounts required to be contributed to the Republic Hourly Plan, J & L Hourly Plan and J & L Salaried Plan for the 1984 plan year. The waiver request was granted, permitting LTV to amortize the contribution in excess of $170 million due for the 1984 plan year over 15 years. In 1986, LTV requested contribution waivers for amounts owed for the 1985 plan year and the amount of amortization for the 1984 plan year to the Republic Hourly Plan, the J & L Hourly Plan and the J & L Salaried Plan. That waiver request was denied.

5. After payment of monthly benefits owed in September 1986, the Republic Salaried Plan had $7700 available to pay October benefits totalling approximately $1.7 million. PBGC therefore was required under Section 4042(a) of ERISA to seek termination of the Republic Salaried Plan in order to assure that benefit payments to retirees were not interrupted. The United States District Court issued an order terminating the Republic Salaried Plan effective September 30, 1986, and appointing the PBGC statutory trustee. The PBGC has been paying benefits under the Republic Salaried Plan since October 1, 1986.

6. Of the approximately $600 to 650 million in contributions payable to the J & L Hourly Plan, the J & L Salaried Plan and the Republic Hourly Plan, from the plan year beginning January 1, 1984, and ending when

the Plans terminated, LTV has paid $20 million. In December 1986, LTV notified the PBGC that it would not make any further contributions to the Plans nor would it contribute amounts past due. Consequently, the PBGC initiated proceedings under Section 4042(a)(1) of ERISA to terminate the J & L Hourly Plan, the J & L Salaried Plan and the Republic Hourly Plan.

7. The vast majority (85 per cent) of retirees under the Plans are receiving from the PBGC 100 per cent of the benefit they were receiving before the Plans terminated. On average, retirees are receiving 91 per cent of the benefits provided under the Plans. Without PBGC's guarantee, participants would receive only about 35 per cent of their benefits under the Plans.

8. On June 25, 1987, the USWA and LTV Steel agreed to certain benefit arrangements as part of a new collective bargaining agreement. LTV has not provided all of the materials requested by the PBGC to evaluate the Follow-on Agreement. Nevertheless, based upon the information that PBGC has received, it is apparent that the follow-on programs agreed to by the USWA and LTV Steel ("Follow-on Agreements"), if implemented, would constitute *de facto* continuations of the J & L Hourly Plan and the Republic Hourly Plan. In addition, without providing specifics, LTV Steel has informed PBGC that it intends to implement similar follow-on programs for its salaried employees. Such programs would therefore constitute *de facto* continuations of the J & L Salaried Plan and the Republic Salaried Plan.

9. More specifically, the Follow-on Agreements, in conjunction with PBGC payment of guaranteed benefits, will provide participants and retirees in the J & L and Republic Hourly Plans with benefit amounts substantially similar to amounts they would have received under the J & L and Republic Hourly Plans (the "Union Plans") had they not been terminated. One component of the

Follow-On Agreements, the Individual Account Trust ("IAT"), would, by its express terms, replace a certain percentage of the difference between the benefit paid by PBGC to retirees and the benefit paid prior to termination. The IAT would provide up to 100 per cent of the difference and no less than 90 per cent of the amount not provided by PBGC. The IAT also permits payment of special benefits provided under the Union Plans for participants who were not eligible for such benefits as of the date of plan termination. For example, 75 per cent of the special "30 and out" benefit offered under the Union Plans would be provided under the IAT for participants who become eligible for the benefit after the Union Plans terminated. The IAT also provides at least 75 per cent of shutdown and layoff benefits available under the Union Plans to those who become eligible after termination of the Union Plans. The 75 per cent benefits are augmented by the program described below so that, in some cases, more than 100 per cent of lost benefits are provided.

10. Another component of the Follow-on Agreement, the Disability Income Benefits for Active Employees ("DIB"), allows participants in the Union Plans who become disabled after the plan terminations to receive a benefit under similar conditions and in an amount substantialliy similar to the amount that would have been provided before termination of the Union Plans.

11. The Pre-Retirement Surviving Spouse Benefit, Extended Supplemental Unemployment Benefits and Lump Sum Severance Program components of the Follow-on Agreement all operate to replace benefits that were available under the Union Plans that have either been reduced or are not paid by the PBGC as a result of plan termination.

12. Permitting the Follow-on Agreement and any similar agreement for participants covered under the Union Plans would pose a clear threat to the financial integrity

of the Title IV guarantee program. Employers and unions have a natural incentive to take advantage of the availability of PBGC funding in order to provide the highest possible amount of pension benefits at the lowest possible cost to employers. Because of this incentive, a variety of manipulations of the termination process have been attempted in order to shift to the PBGC most of the cost of ongoing retirement programs. The PBGC has successfully opposed such attempts in the past. Approval of the Follow-on Agreement would create a precedent that may well be used with respect to the pension plans that already pose the greatest and most immediate threat to the PBGC's viability.

13. The Administration recently proposed various amendments to ERISA, including an amendment that would clarify that, "[e]xcept to the extent permitted by the PBGC, an employer (and its controlled group) would be precluded from establishing retirement programs which, in whole or in part, provide substantially similar benefits within five years after termination of a plan that did not have adequate assets to provide PBGC guaranteed benefits." (The Administration's Proposal on the Funding and Termination of Defined Benefit Pension Plans at 18.) This proposal would merely clarify, not change, existing law. On a number of occasions over the past several months, I have been asked to explain this proposal to Congressional staff members and others, and have stated consistently that the proposal is intended only to clarify existing law.

14. As a result of several recent pension plan terminations, including the termination of the Plans, PBGC is paying more in benefits than it is receiving in premiums for the first time in its history. Notwithstanding last year's premium increase from $2.60 to $8.50 per participant, annual benefit payments to participants in the Plans alone are projected to exceed the PBGC's annual premium income from single-employer plans and to exceed

the total amount that the PBGC is currently paying participants in all of the other plans of which it has become trustee since 1974. This cash drain is especially alarming in light of the PBGC's current deficit. As a result of termination of the Plans, the PBGC's deficit increased by more than $2 billion. PBGC currently has about $3 billion in assets, 7 billion in liabilities, and thus a deficit of approximately $4 billion. This deficit would be increased by billions more should the remaining major integrated steel producers terminate their pension plans. Establishment of the Follow-on Agreement here would greatly increase their incentive to do so. Accordingly, it is essential that strategems for shifting pension liabilities to the PBGC, such as that employed here, be prohibited.

/s/ C. David Gustafson
C. DAVID GUSTAFSON

Subscribed and sworn to before me this — day of July 1987.

/s/ [No signature]
Notary Public

My Commission expires:

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

Case No. 86 B 11270/334, 404 & 464

IN THE MATTER OF CHATEAUGAY, *et al.*,
Debtors.

July 16, 1987
United States Courthouse
Foley Square, New York

Hearing on application by LTV to enter into collective bargaining agreement w/USWA.

BEFORE:
HON. BURTON R. LIFLAND,
Bankruptcy Judge

[Appearances of counsel omitted in printing]

[8] PROCEEDINGS

MR. KADEN [counsel for LTV]: Your Honor, with the Court's permission, I would propose to make a brief opening statement.

Mr. Weisz [counsel for PBGC] and the Debtors and the union have agreed to proceed without direct testimony by affidavit.

Although we have provided in our agreement, subject to the Court's wish, that if counsel wishes to ask the witness for a brief minute or two summary of his affidavit that that would be acceptable to us.

We don't intend to do that ourselves. We are prepared to proceed on the basis of the affidavits which was submitted to the Court this morning and to make those two witnesses available for cross-examination.

THE COURT: Mr. Kaden, I have just received the last set of those affidavits only a few minutes ago and I started to go through them.

I think it might be appropriate to follow the alternate suggestion that you or Mr. Weisz or Mr. [9] Moloney can summarize the contents of the affidavits, the agreed upon submissions for a prima facie case.

MR. KADEN: Yes. Do you mean counsel should summarize or that the witness should be asked to summarize or either?

THE COURT: I believe you had indicated you had some plan of exposing those affidavits either through counsel, which is satisfactory to me, if that—

MR. KADEN: Fine, we will do that with respect to Mr. Tremain's affidavit through the opening statement.

The affidavit itself includes a number of charts attached with it summarizing the agreement. I think we can do that speedily in the opening statement and then Mr. Tremain will be available for cross-examination.

I think on the basis of that affidavit we think the application ought to be approved. This matter, as you know, Your Honor, involves an application for approval under Section 105 of the collective bargaining agreement, including certain prepetition expenses.

And as well as separate applications seek [10] approval of certain benefits for salaried employees and for the payment of certain prepetition expenses for employees pursuant to the profit sharing employee investment program that was part of the 1986 collective bargaining agreement.

The heart of the matter, as this Court appreciates, is the approval of those parts of the 1987 collective bargaining agreement between LTV Steel and the United States Steelworkers Union.

That, in our view, requires Court approval because they do involve the payment of certain prepetition obligations.

The negotiation leading to this agreement has been an arduous one and has occupied the Debtors and the union since last fall.

Shortly after the filing of this proceeding in July of 1986, the Debtors initiated a request for negotiations to modify the then existing collective bargaining agreement with the steelworkers.

It was the Debtors' belief at that time that although the concessions obtained in the 1986 negotiation, concluded in March of that year, had been substantial, indeed more substantial in amount, [11] in consequence than those achieved by any other major steel producer.

Those concessions had not been adequate to avoid the bankruptcy filing.

And promptly after the bankruptcy filing, in September of 1986, the Debtors sought additional negotiations.

In the normal practice of industrial relations and collective bargaining, it is not an easy matter to go back to a union who has just given and ratified concessions in the dimension involved in the 1986 agreement and ask for still more.

But it was LTV's view that additional savings were necessary, savings in the area of health insurance costs and authorization at that time to terminate the pension plans.

It was simply not possible for this company to go forward and reorganize in circumstances where an ever declining base of active employees, now about 20,000 or less, had to support an ever growing base of retirees.

That phenomenon comes about in an industry that is shrinking as a result of all the competitive forces that affect the steel industry.

[12] But to support more than 42,000 retirees on a shrinking base of active workers in a highly competitive industry was simply not feasible.

And the level of pension and insurance costs were driving this company further and further into the ground.

Because this company was built from the consolidation of at least three steel companies, historical circumstances

gave it a bigger problem in terms of that ratio of active to retirees more than its major competitors, most of its major competitors. And that imbalance was a driving force behind the bankruptcy filing, was one of the factors that made this company uncompetitive in the marketplace and required the filing of the bankruptcy petition.

LTV, as I said, immediately sought negotiations and started those discussions in September of 1986.

The steelworkers' position, not surprisingly, was, "We just concluded an agreement, we have given you $3.44," that's Mr. Tremain's affidavit and the charts are attached in Exhibit B, "we have brought the cost down by that amount. We have made you as competitive as we can. Indeed, we [13] have agreed to other concessions with the other major steel producers. And we are not particularly interested in additional concessions so soon after that negotiation."

The company persisted and periodic discussions were held. But until the PBGC acted itself under the involuntary proceedings of ERISA to terminate these pension plans, the steelworkers had relatively little interest in productive negotiations.

LTV sought from the steelworkers, during those fall negotiations, their consent to a voluntary termination. It used to be that ERISA permitted a voluntary termination notwithstanding a barrier in a collective bargaining agreement.

Indeed, in one well known case involving Allis-Chalmers, a company known to this Court, Allis-Chalmers tried to get the union's consent to termination, failed and terminated itself and with the support of the PBGC fought off a Court attempt by the union to stop that voluntary termination.

Congress responded to that and other events by changing the law so that a collective bargaining provision that said you cannot terminate [14] this pension plan was a bar to a voluntary termination, but not to an involuntary termination under Section 4042.

And so we sought, during the fall, to get the union's consent to a voluntary termination. They would not give it.

And in January, as you know, PBGC moved before Judge Owen under the involuntary section of ERISA to terminate these plans.

They asked LTV to consent. And LTV said, "We have no objection. We consent to that."

Indeed, it was our objective, but we couldn't proceed under the voluntary termination provisions because of the barrier in the collective bargaining agreement.

Immediately following that termination action of the PBGC approved by Judge Owen, the negotiations became more serious. Because, as you well appreciate, 8,000 retirees lost their supplemental retirement benefits, in some cases amounting to more than fifty percent of their income.

Many of those 8,000 retirees getting $400 supplements in addition to a basic pension benefit that might have been $300 or $250 or $400 or $450, [15] the loss of that $400 was a dramatic change in their earnings.

You know that because this Court heard from retirees, Congress heard from retirees, certainly the union and company heard from retirees and the steelworkers came back to the negotiating table and said, "We want to negotiate to deal with the hardship caused to those retirees and the hardship caused the active employees because the termination of the pension doesn't work only consequences on those retirees, it also works serious consequences and hardships on the active employees."

An active employee who died after pension termination leaving his widow, his widow used to, under these pension plans, get certain espousal benefits eliminated by the termination.

If an employee became disabled after January 13, 1987, those pension plans used to provide fairly good disability payments. Eliminated as a result of the termination.

And so in each of those cases an employee with twenty-nine and a half years of service on January 1987 was probably counting the days until he hit thirty years and could get that early retirement [16] under the thirty and out benefit. Eliminated as a result of the termination.

So it's not just the 8,000 employees, the problems and the pressures were there throughout the work force as a result of the PBGC's action terminating the plans and that gave impetus to the negotiations.

The steelworkers came in and said, "We got to deal with the problems of all these different groups of employees affected by termination." They wanted to negotiate, follow on or replacement or whatever name you want to give it, plans, benefits to deal with those hardship circumstances.

The company said, "Okay, we are ready to negotiate about that, but we know that will cost. We are in Chapter 11 and we cannot afford the cost of those replacements unless we get some savings.

"We may not be able to offset dollar for dollar the cost of those benefits that we have to give you either because that's the way the negotiation will go or because it's fair and just and sensible to do so for our work force, but we have to find a way through getting savings and in other areas to offset some of that cost."

[17] And that is the essence of this bargain.

The agreement ultimately negotiated after all the difficulty that this Court is well aware of through winter and spring and early summer of 1987.

The 1987 agreement set forth in simple, easy to understand charts attached in Exhibit B to Mr. Tremain's affidavit.

Those charts come from the slides we used to present this agreement to the Unsecured Creditors Committee, to the Bank Committee, to the Equity Committee, to the Board of Directors of LTV and they include full and

complete summaries of the formal settlement agreements and term sheets.

That's the essence of the agreement.

In the first year, 19—the first year cash flow, $70.8 million of costs attached to these different benefit areas where problems were created as a result of the termination.

Now, you will hear talk from the PBGC that what we have done is recreate the same old program. Far from it. We had to take that program apart, set it aside because it wasn't there anymore and try to address in these very complex negotiations one by one the kinds of problems I mentioned:

[18] The problems of espousal benefits, the problems of people getting disabled, the thirty and out problem, the problem of what happens when facilities shut down and the problem of those supplemental payments to current retirees.

And in each case, the solution was not some pension plan thrown back into the insurance system under Title 4 of ERISA that PBGC could guarantee and insure once again. Far from it.

In each case, it was a specially crafted program; sometimes an insurance program, sometimes a retirement plan, sometimes a nonqualified retirement plan and sometimes a qualified retirement plan.

Each of them designed to respond to the exigencies of that problem within the law.

Now, that's the $70.8 million of cost over the course of ten years. As the last page of Exhibit B in Mr. Tremain's affidavit makes clear, it is a ten-year cash flow. You have to make one important assumption in developing that cash flow, as LTV did, as Mr. Tremain's materials indicate.

You had to make sume assumption about the shutdown of what are called supplemental facilities, the questionable facilities in terms of their future [19] life.

And whenever you did shut down a facility, then two years later you would begin to have some costs, in some cases some costs a year later under this new agreement.

So we made the most conservative assumption possible that all those facilities on the list should shut down on January 1, 1988.

In fact, it's an impossible assumption. We are going to come soon to this Court for an approval—excuse me, I am not sure when it comes to this Court, we put in the capital review process a decision by the company to realign the blast furnace at Warren which accounts for more than half of the supplemental facility employees.

We are doing that because Warren is operating profitably and productively right now. As a result, there is not going to be any shutdown on January 1, 1988. It's an impossibility.

That's all by way of saying that the charts in there about the cash flow is the most conservative possible and it shows you start at $70.8 million, you have a blip up in the third year as a result of those assumed shutdowns to $79 million, [20] then it trails off down to $53 million in the tenth year.

The reason it goes down is that the current retirees who are getting some portion of their cut-off supplements, they are a finite population, we know exactly who they are today, they are the people who got $750 one time hardship payment by Order of this Court and as they—as their eligibility in those supplements expire because they hit a certain age, move into Social Security, whatever, or as they die, as some of them will, that obligation goes down.

And that accounts for the decline in the cash flow from the $70.8 million to the $53 million.

Now, the $70.8 million consists of six or several separate pieces, totally different programs, and the important point to make about those programs is that not one of them is a qualified defined benefit plan that will be insured and guaranteed by the PBGC.

One of them, for people going forward, is a defined contribution plan, fixed obligations to contribute based on the number of hours worked and the rates of pay in which the employee takes the [21] investment risk.

Another is insured annuities for espousal benefits, when an active employee dies on the job you get a certain amount in effect of an annuity although over time it disappears because it's offset by the defined contribution account.

Another of them is a disability program so that these people who get totally disabled won't be out of benefits.

But it has very different features of eligibility, of qualification, of maximum benefits than the old plan and it's not done through a qualified and insured pension plan.

It's done through a 501(c)(9) trust in which there is a much greater risk of whether that funding promise is secure and will be kept, whether the employee can fully count on it if things go poorly for the company.

The thirty and out benefit has a new age requirement of fifty-seven—

THE COURT: What are you saying is that these plans will in no way ever be PBGC offers?

MR. KADEN: Never.

In case three, involve additional risks we [22] we can spell out, I won't take the full time to do that. Additional risks to the employees:

Risks of investment, risks of eligibility, risks of qualification that make them significantly different and they were the product of this arduous negotiation. That's the $70.8 million on the cost side.

What do we get on the savings side? We sought and obtained $20 million of savings in health insurance.

I think Your Honor knows how difficult that is to achieve in a collective bargaining setting where people, active employees and retirees have been getting their basic insurance paid for, health insurance paid for fully by the company without any contribution for a long time.

And this agreement institutes for the first time a contribution of $26.82 a month for every participant, active employee and retired person.

There are different ways it's collected, there are different ways depending on considerable profits. In some cases it might be reimbursed, but the company is assured under this contract that $20 million of savings. And that is a major achievement [23] in this industry.

Where did we get $26.82? The $20 million was the bargain. If you take the full number of participants active and retirees and divide it into $20 million you come up with $26.82 a month. That is the way the collective bargaining process tends to work.

That's—secondly, we got for the first time in this industry in any major steel producer a management agreement that commits on a companywide basis the reduction of a significant number of jobs through more productive utilization of the work force.

And it doesn't just set forth a process leading to people leaving the work force so we can have fewer workers and be more productive. It commits by contract the number of 517 jobs.

When we showed that to the Bank Committee, one of the bank officers who has been involved in this industry for a long time and has studied many management agreements, he said, "This is the first time I seen a contractual commitment to reduce the number of jobs by that number."

517 jobs, $40,000 a job, is a $21 million [24] savings when it's fully implemented.

There is an inducement payment that eliminates some of the savings the first year, it takes time to go through the process in the first year, but when it's fully implemented, it's a real $21 million in savings.

Finally, we got agreement from the union to consolidate certain crafts so in some instances a pipefitter can also do welding or a plumber can also do something else. That's all set forth in the agreement.

It will lead ultimately to the fact that the company will not have to replace 220 positions when they are eliminated by attrition because of this right to combine crafts. It's another $9 million of savings when fully implemented.

So the $50 million of savings offsets substantially when this agreement is fully in place the $70 million of costs. That's all we put in terms of hard dollar savings.

But as Mr. Tremain's affidavit and the charts make clear, there are additional advantages that will make this company more productive in the long run.

[25] We set up for the first time a joint policy review committee in which the senior managers of the steel company and the senior leaders of the United Steelworkers, including their international president, will meet every quarter, they will exclude from their agenda matters affecting the bankruptcy or affecting collective bargaining and labor relations.

But this will give them a forum to develop a working partnership, a cooperative relationship on how to make this company work better in the future.

We think that will be something that we can look back to three or four years from now, well after the end of the reorganization, and say that we would make this a better company.

Similarly, we have a process for eliminating unproductive work practice, also utilization of equipment on a local basis plant by plant.

That too will lead to savings in the future, but we haven't quantified them or used them in this calculation.

We agreed to the management experiment concerning the LTV Sumatoma plant in Cleveland.

When you add all this up we believe it's a [26] good agreement, but its terms provides that it will last for the duration of the reorganization.

It will be subject to negotiation at the end of the reorganization period, it must be concluded in the new agreement before plan confirmation. That's the end point.

And therefore, what we have done, is put in place a framework for labor stability on an effective basis for the period of the reorganization.

Those advantages of stability, of fair treatment to the retirees, of a decent agreement to go forward through this difficult Chapter 11 process over the coming months is, we think, of enormous consequence and importance; and in terms of this Court's approval, what it requires is the authorization to make these prepetition payments, for example, total retired people who will get part of their lost supplement required an average of ninety-two and a quarter percent of those $400 sums that they lost.

We think, taken as a whole, it is plainly in the interest of the estate, plainly will advance the prospects for an effective reorganization.

Let me spend just a few minutes on the [27] heart of the legal objection that has been raised.

Raised yesterday before Judge Keenan in an effort to stop this hearing from going forward and will be raised today, has been in papers that we were given five or ten minutes ago before you.

The PBGC, an agency of the United States, comes before you and says, "All these arrangements that you have negotiated in this collective bargaining, LTV Steel and the United Steel Workers, violate the general purpose of ERISA."

Now at the behest of Senator Metzenbaum and Secretary of Labor Brock, who is the Chairman of the PBGC, some of us engaged in discussions with the PBGC last Friday all day for ten or eleven hours and most of Monday.

We asked repeatedly, "What is the basis for this objection? What pieces of this agreement are offensive? What is your reason? What do they say both then and in these papers?"

The overall purpose of pension plan termination under ERISA is violated by the negotiation and collective bargaining of these follow on arrangements.

When I was a law teacher, before going [28] back to practice, I used to tell my students you ought to be aware of the lawyer who tells you that the general policy of a statute requires that you do so and so or bars you from doing such and such.

Your question to them ought to be, "What provision? Where does it say in the statute? If you tell me that Congress said you can do this or you can't do that, where in the statute does it say that?"

And I submit to you, that they can't do that here with good reason. Because it's not there.

If you look at the scheme of ERISA, what you will find is the development by Congress of an insurance and guarantee mechanism where all employers pay premiums; the PBGC has the statutory responsibility in certain circumstances, either involuntarily on its own, as they did here to terminate pension plans under certain circumstances, or to receive termination notices through the voluntary provisions. That didn't happen here.

And when plans are terminated what the statute says is the PBGC appoints itself as the Trustee of those plans, it takes over the assets, it takes over the liabilities, the statute limits its [29] payments to certain guaranteed level and it's their interpretation of that provision that leads to our problem, because the guarantee level doesn't cover the benefits, some of the benefits that we are dealing with in this agreement.

The statute further says that PBGC, when you have done this—in fact, Congress stiffened the test for termination, as I indicated a year or so ago, in new legislation. They wanted to make it more difficult voluntarily to terminate.

So PBGC thought this is a distress test. It's not an issue here. It's not voluntary termination. It's no question LTV is distressed by virtue of the Chapter 11.

But the point of the matter is the statute sets forth the scheme when they can terminate, when they must terminate, what they must do after they terminate, when

they become the Trustee of the plans, how they distribute the assets they find in the plans they take over, how they pay the liabilities and what claims they have against the old sponsor.

Those claims, as you well know, in their view, amount to billions of dollars, one of the largest claims, perhaps the largest in this case, [30] maybe one of the largest ever in a Bankruptcy Court.

During the process of reorganization—

THE COURT: Don't forget the claim of Pennzoil.

MR. KADEN: Mr. Crames doesn't let me forget the claim.

During the process of reorganization that will all be sorted out. The statute sets forth those schemes. It doesn't say anything about who shalt not engage in collective bargaining. The statute doesn't say anything about who shalt not have a follow on benefit plan.

Surely the statute doesn't say anything about LTV shall not give any benefits to the spouses of active employees who die or to the families of active employees who get totally disabled on the job and for good reason.

Can you imagine the Congress of the United States passing a statute that said you can't give espousal benefits and you can't give disability benefits? It didn't happen and it would never happen.

The fact is that this statutory scheme in ERISA lives, coexists with an obligation under 1113 [31] to bargain collectively, including to bargain collectively over precisely these issues as the Second Circuit told us in Century Brass, and an obligation under the Taft-Hartley Act to engage in collective bargaining on a continuing basis. And there is simply no basis in that statute for this set of theories.

If there was one thing that the PBGC spun out when we sat across the table from them in Washington last Friday or writes into their papers here, they will tell you that Judge Simmons in the Wheeling-Pittsburgh case has crafted a path that you must follow.

Let me just take a moment to tell you something about Wheeling-Pittsburgh. First of all, Wheeling-Pittsburgh was a voluntary termination under the older law.

They fought over whether to accept that termination. The PBGC in Wheeling-Pittsburgh fought in Court about that and they settled their litigation in effect in a settlement agreement.

And the settlement agreement said that if you, Wheeling-Pittsburgh, negotiate any continuing pension arrangements with the United Steelworkers you [32] have got to submit them to us for review. And if we object to them, then you have got to take them to a Court of appropriate jurisdiction.

That was all set forth in the settlement agreement. That's how Judge Simmons got that case.

In December they submitted these plans to Wheeling-Pittsburgh and the union submitted these plans, not PBGC; PBGC said, "No, we don't like them in" January. Wheeling-Pittsburgh and the union said, "Why? Tell us why."

They said, "No, we don't have to design plans for you, that's not our business."

And so the company and the union went to Judge Simmons to seek approval.

Totally different setting. They had contracted to give that Judge jurisdiction. We haven't given them any judisdiction except as a creditor has a right to come in here and tell you it's not in the interest of the estate. They are not a regulatory agency.

They are a guarantee and insurance corporation charged with administering Title 4 of ERISA. That's their function.

They don't sit there to design our [33] collective bargaining arrangements for us. They don't sit there to design the way we respond to the hardship needs of these employees or active employees. There is no basis in their statute to do that.

Ultimately if we are successful here and they don't accept that, as they told Judge Keenan they would never accept it yesterday, "We will have to fight that out in other Courts." But the fact is you can't find anything in that statute to substantiate their theory.

They spin out policies. They told us last Friday these are our policies, and indeed they are, some of them are in Ms. Utgoff's affidavit submitted here.

If there is one thing we have learned recently in part by watching television is that the executive branch of our government has to follow the law, has to act within the law, does not make the law up themselves.

And in this case, the law that they are charged with enforcing sets forth the scheme of termination, insurance, guarantee and claims. It didn't say anything about changing the scope of free [34] collective bargaining.

We have set forth all those—some of those arguments in our materials and we will be certain to elaborate on them if the occasion presents itself, but the bottom line is, we think this agreement is in the best interests of the estate.

We think these prepetition payments ought to be authorized because they are integral to the whole agreement. And the whole agreement is integral to the continuing productivity of the steel company.

And, in turn, that continuing activity is crucial to the capacity of this Debtor to reorganize effectively.

We have also these other applications, comparable program for salaried employees with respect to the salaried retirees requires authorization of the Court to make those prepetition payments in the same fashion; and in addition, although it was not part of the '87 negotiations, the '86 agreement included this stock ownership plan and profit-sharing plan, some of the stock that would have to be contributed to that trust for employees was earned during the period April 1 to July 17 prepetition, and therefore our view has been that the [35] contribution

of that preferred stock requires Court approval and that application is in this package as well.

We believe, when you hear all the testimony from our witnesses, from our adversary's witnesses, we submit we will conclude that these agreements will advance the best interests of the estate and advance the cause of effective reorganization and should be approved. Thank you.

MR. SELTZER [counsel for USWA]: Your Honor, one cannot over-estimate the importance of this agreement to the company, to its creditors and to the people I represent here today, the union represented here today by its International President Lynn Williams, vital to the thousands of retirees who have given their working lives in the mills of this company and its predecessors and vital to the active employees who work today for this company.

It alleviates much of the hardship that was brought upon active and retirees by the termination of pension plans in January of this year.

It alleviates the suffering of the type of people like Eldo Tollis and Richard Walter, who testified before you several weeks ago in the

• • • •

[Testimony of Arthur Cole Tremain, witness for LTV. Cross-examination by PBGC counsel.]

[104] Q. When you say—if I remember your testimony and your affidavit, forgetting the savings now, let's just talk on the cost side, it cost $71 million in the first year?

A. That's first year cash flows.

Q. What about second year, third year, fourth year?

A. Oh, it's in the affidavit.

Q. Tell us how much it is.

A. I want to be accurate. Let's see if I can find it again.

Okay. The forecast of cash flow in the second year

$70,300,000, and the third year $79,100,000. That number is in my mind considerably overstated.

Q. Why did you put it in your affidavit?

A. These are cash flows that we used in [105] bargaining, and in bargaining the union asked us to include in our forecasted cash flows the cost of shutting down the supplementary units, and for the purpose of meeting that request we assumed in all of our work that all of the supplementary units were closed on January 1, 1988.

Q. They will not be?

A. In fact, there will be no significant supplementary unit closed on January 1, 1988.

Q. Is it fair to say the cost will continue from $71 million on up through the year?

A. I am sorry?

Q. Is it fair to say that the cost will be on an increasing basis?

A. No, they will decrease.

Q. When will they start decreasing?

A. If we don't have those shutdowns, they will be decreasing right off the bat.

Q. Have you seen the business plan of the company?

A. I have seen business plans of the company.

Q. They project no shutdowns?

A. They project no shutdowns right now of the supplementary units other than the 14 inch bar mill [106] in Aliquippa.

Q. Do they predict any shutdown of any mills over the next five years?

MR. KADEN: Objection. This is hardly the occasion to preview the company's drafts of business plans.

MR. WEISZ: The numbers are dependent upon whether or not there are shutdowns.

THE WITNESS: I can give my personal view.

THE COURT: I will allow it.

A. My personal view is that there will be no shutdowns of major supplementary units in the next several years. I really have no ability to see farther than that.

Q. How many years?

A. Next several years.

Q. In the next several years, there will be no shut-downs other than the 14 inch mill in Aliquippa, Pennsylvania?

A. That's my personal view.

* * * *

[Testimony of James Francis Powers, witness for LTV. Cross-examination by PBGC counsel.]

[124] Q. Do you recall any proposals put forth by the PBGC at those meetings which would alleviate any substantial portion of the retirees' problems at all?

A. No, sir.

Q. You don't?

A. I do not.

Q. So it's your testimony that no—were any proposals made at those meetings?

A. Oh, yes, sir.

Q. Did those proposals address the question of the retirees?

A. They certainly did.

Q. Did those proposals detail the way to put some of the money back into the retirees' pockets that they lost?

A. Absolutely. In every one of the proposals were made by the company and by the United Steel Workers, we proposed to the Pension Benefit Guaranty Corporation that we go forward with the agreement which was explained to the PBGC in May and which was, I believe, term sheets or information provided a week [125] ago Monday and we explained why it was important to the retirees, to the company, to the employees to go forward and to get this matter behind us.

We repeatedly asked, implored, begged for them to explain in some detail what they found objectionable to the proposals that we had put before them. And we were repeatedly—we repeatedly got the answer, "The overall agreement does not fit in the overall principles of the Pension Benefit Guaranty Corporation."

Q. Do you recall any discussion of a trust under Section 4049 of ERISA being set up?

A. Yes, sir.

Q. Do you recall that the PBGC suggested pre-funding that 4049 trust so as to put money in the pocket of the retirees?

A. The PBGC have never suggested anything at that meeting. What they did say was have you considered this and have you considered that?

I do not believe there was a single proposal that came across the table from the Pension Benefit Guaranty Corporation to the company or to the union.

As I said to you, we were desperately [126] trying to find out what was wrong with the proposal that we put on the table.

We had considerable discussions of a 4049 trust and were reminded by the PBGC and its counsel, Mr. Ford, who is here, that we were having discussions that dealt with the entire agreement and that Mr. Ford made it very clear to us on a number of occasions during those discussions that anything that the PBGC indicated a willingness to do was against the backdrop of an overall agreement and the subject of 4049 trust in an attempt to find out what the PBGC objected to I asked them if we could pay—if you took a typical retiree who was getting a benefit of $400 a month under the old plan, could we pay $300 of that, seventy-five percent, through a 4049 trust without the Pension Benefit Guaranty Corporation objecting.

After much discussion, they said they thought that could work provided that they could be in agreement on the entire proposal before them.

* * * *

[Testimony of James P. Jenkins, witness for PBGC.
Direct examination by PBGC counsel.]

[151] So I commented that I thought the risk of a strike —that I was being told the risk of a strike was great.

In my view, the costs of a strike were unbelievably high. I made the statement that it was almost a bet the company type proposition whether or not the company should take on a strike.

* * * *

[Testimony of James P. Jenkins, witness for PBGC.
Cross-examination by LTV counsel.]

[156] Q. Did you express the view to the Committee that had the company delegated the collective bargaining responsibility to you, you could have done better and be less disappointed?

A. No. As a matter of fact, I think I said to the Committee that I was disappointed in the entire industry and I have no sense whatsoever that I could have done anything better or frankly that anybody could do anything better. It seems—

* * * *

[Bench ruling by the bankruptcy court.]

[219] THE COURT: Thank you all for being patient this late in the evening.

Before I even start, I would like to point out that perhaps in the zeal of litigation the [220] parties to these applications have raised far more with respect to these applications than perhaps they really are.

The claim that this is the single most important event in LTV may possibly be so; I doubt it.

I think confirmation will undoubtedly be the single most important event in LTV. I think the nature of the business plan and the events of the next series of months will produce or should produce matters and concerns that

are of crucial and perhaps dwarf issues that are here today, then again perhaps not.

There are further assertions that the almost innocuous applications that are before me presage or deal with some wrenching policy questions involving the government and the entire pension system.

While this may have some impact or play some part, again it may not necessarily be all that keen an issue.

Some of those assessments, I dare say, are so professed, some of them are driven, perhaps by media reporting, which again can be self-serving, and [221] as I have indicated previously today, if not in this evening's hearings, this case is not being driven by concerns of what appears in the media. The case is going to be driven by the merits of the matters that are brought before me.

So what really is before me today, what I am being asked to approve are the essentials, or to put it another way, the material terms of an interim collective bargaining agreement and related agreements which, among many things, call for the payment of certain prepetition obligations to employees and retirees.

I conclude that the implementation of these agreements will help to resolve some of the most troubling issues raised to date in this bankruptcy case and will help to insure labor peace during the course of this reorganization, and will help to alleviate the extreme hardship suffered by the Debtors' retirees and employees, as has been shown to exist in the cumulative record of these proceedings.

As in all cases, the threshold issue is this Court's jurisdiction to determine these matters. 28 U.S.C. 157(a) combined with the standing order of [222] reference, grant to this Court the jurisdiction conferred upon the District Court by 28 U.S.C. 1334(a).

Pursuant to 28 U.S.C. 157(b), the Bankruptcy Court may hear and determine Core Matters which include matters concerning the administration of the estate.

While some of those objecting to these motions have attempted to obfuscate the nature of the relief requested herein by raising issues outside of and apart from those ripe for determination today, it has become abundantly clear that the relief requested forms the very essence of core proceedings under 157(b)(2) and those matters within the contemplation of Section 105.

This Court finds that the instant agreements, in some respects, encompass an ordinary course transaction, and if we were to look through Section 363(c)(1), the Debtors would not necessarily require the imprimatur of this Court to complete the entry into major essentials of the labor transactions.

However, inasmuch as these agreements also provide for the satisfaction of certain prepetition [223] obligations in contravention of the general provisions governing Title 11, the approval of this Court is mandated.

Section 105, however, provides the authority for this Court to consider approval of such payments. Pursuant to that section, this Court may authorize such payments where "necessary or appropriate."

Based upon the complete record before me today, including all filed papers, it has become abundantly clear that this Court may and should utilize its equitable power to authorize the terms and payments contemplated by the agreements as they are clearly necessary and appropriate to the goal of rehabilitation for this Chapter 11 Debtor.

As an aside, this Court notes that Section 1113 of the Code specifically contemplates that the Debtors might unilaterally amend an existing collective bargaining agreement upon such notice as is necessary in accordance with the Debtors' needs. See Section 1113(e). I am not faced with that. But with respect to even the contemplation by Congress that that could happen, it is something that we ought consider.

[224] Therefore, were it not for the consensual nature of this agreement, the collective bargaining matters could

potentially be before me pursuant to the explicit terms of the statute.

Accordingly the Court concludes that it is beyond peradventure that it has the jurisdiction to hear the motions currently before it under the penumbra of a range of statutory authority.

Finally, the PBGC is concerned that the determination of the motion requires interpretation of novel issues of law under ERISA statutes and the application of the policies espoused by that agency.

Mere speculation as to the applicability of ERISA to the collective bargaining and related agreements are not supportive of valid objections as they are today considered under Title 11.

Indeed, as the PBGC has pointed out heretofore, it may have legal options or avenues that it can assert administratively to or in Court to implement its policy goals. Nothing done here tonight precludes the PBGC from pursuing these options or indeed from seeking legislative relief, or as they may have done in the past or apparently have done in the past by treating instances of relief to [225] employees past or present on an ad hoc case by case basis. They might well consider to do that here.

It is also interesting to note that while the PBGC argues that these agreements constitute a de facto plan of reorganization, in some sense these agreements by their very terms are scheduled to endure only as long as the term of this reorganization and are only meant, and this Court regards them, as an interim measure.

Accordingly the concern that this constitutes a plan sub rosa is unfounded.

I have considered the objections on this record and find that the relief requested is appropriate under all of the cumulative circumstances.

Therefore, the Debtors' applications are granted and they are directed to submit the appropriate Orders.

* * * *

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Jul. 23, 1987

Raymond A. Hay
Chairman of the Board and
Chief Executive Officer
The LTV Corporation
2001 Ross Avenue
Dallas, Texas 75265-5003

Re: Benefit Arrangements for Participants and Retirees in the Terminated LTV Steel Company Pension Plans

Dear Mr. Hay:

This letter reiterates the proposal of the Pension Benefit Guaranty Corporation ("PBGC") to address the needs of retirees and participants in the four terminated LTV Steel Company Pension Plans ("Plans"). The PBGC remains ready to implement this proposal, made during meetings with representatives of The LTV Corporation, LTV Steel Company and the United Steelworkers of America on July 10 and 13, 1987.

PBGC offered to appoint immediately a trustee under Section 4049 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), who would have the authority to collect amounts owed the Section 4049 Trust under Section 4062(c) of ERISA. These amounts, up to 75 per cent of "outstanding benefit commitments" under the Plans (*i.e.*, 75 per cent of the gap between guaranteed benefits and full benefit commitments), would be paid to participants in addition to the benefits paid by the PBGC. As you know, the total amount of the Section 4049 Trust's claim is approximately $150 million.

Because The LTV Corporation, LTV Steel Company and certain other entities liable to Section 4049 Trust are in Chapter 11, payments to the Section 4049 Trust would otherwise be included in a plan of reorganization to be proposed at some future date and would not provide all of the amounts claimed by the Section 4049 Trust. To eliminate this delay and to provide immediate payment to retirees under the Trust, the PBGC offered to seek an agreement with the general unsecured creditors for immediate pre-funding of the Section 4049 Trust to the extent of the projected value of the Trust's claim.

Moreover, in our role as a creditor, PBGC offered to agree with the general unsecured creditors on *additional* funding of the Section 4049 Trust, beyond the actual value of its claim and up to total funding of $150 million. Such an agreement would be in the interests of general unsecured creditors as a means of averting a potential strike by the United Steelworkers of America and thus conserving the value of the estate.

Finally, PBGC stated that it would accept the establishment of a traditional, future service, defined contribution plan for active employees who are participants in the Plans. As you know, such a plan could provide generous benefits to LTV's workers without running afoul of Title IV of ERISA.

Please reconsider this offer as a means of addressing the needs of participants and retirees and avoiding costly and unnecessary litigation.

Very truly yours,

/s/ Royal S. Dellinger
ROYAL S. DELLINGER
Deputy Executive Director

cc: Michael Crames, Esq.
Karen Wagner, Esq.
Lynn Williams

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Jul. 23, 1987

Lynn Williams
President
United Steelworkers of America
Five Gateway Center
Pittsburgh, Pennsylvania 15222

Re: Benefit Arrangements for Participants and Retirees in the Terminated LTV Steel Company Pension Plans

Dear Mr. Williams:

This letter sets forth the proposal made by the Pension Benefit Guaranty Corporation ("PBGC") during meetings with representatives of The LTV Corporation, LTV Steel Company (collectively, "LTV") and the United Steelworkers of America ("USWA") on July 10 and 13, 1987. The PBGC believes this proposal would provide immediate relief to retirees and participants in the terminated LTV Steel Company Pension Plans ("Plans") while complying with Title IV of the Employee Retirement Income Security Act of 1974, *as amended* ("ERISA"). The PBGC remains willing to implement this proposal if it is accepted by LTV and the USWA.

As PBGC has informed USWA representatives, Section 4049 of ERISA provides for the establishment of a trust to pay benefits to participants in terminated plans in addition to the amounts paid by PBGC. The Section 4049 Trust provides up to 75 per cent of the difference between the benefit paid by PBGC and the benefit provided under the plan. To alleviate the hardship of participants whose benefits have been reduced as a result of termination of the Plans, PBGC offered to appoint immediately a trustee of the Section 4049 Trust, who would have the authority to collect amounts owed the

Section 4049 Trust under Section 4062(c) of ERISA. The total amount of the Section 4049 Trust's claim is approximately $150 million.

Because The LTV Corporation, LTV Steel Company and certain other entities liable to the Section 4049 Trust are in Chapter 11, payments to the Section 4049 Trust would otherwise be included in a plan of reorganization to be proposed at some future date, thereby significantly delaying any payments from the Section 4049 Trust. Therefore, the PBGC offered to seek an agreement with the general unsecured creditors for immediate prefunding of the Section 4049 Trust to the extent of the projected value of the Trust's claim.

Moreover, in our role as a creditor, PBGC offered to seek agreement with the general unsecured creditors on *additional* funding of the Section 4049 Trust, beyond the actual value of its claim and up to total funding of $150 million. Such an agreement would be in the interests of general unsecured creditors and PBGC as a means of ensuring labor peace and thus conserving the value of the estate.

Finally, PBGC would accept the establishment of a traditional, future service, defined contribution plan for active employees who are participants in the Plans. As you know, such a plan could provide generous benefits to LTV's workers without running afoul of Title IV of ERISA.

Please reconsider this offer as a means of addressing the needs of participants and retirees and avoiding costly and unnecessary litigation.

Very truly yours,

/s/ Royal S. Dellinger
ROYAL S. DELLINGER
Deputy Executive Director

cc: Raymond A. Hay
Bruce Simon, Esq.

[PBGC Logo]
Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

July 23, 1987

Office of the Executive Director

James F. Powers
Senior Vice President and
Chief Financial Officer
The LTV Corporation
2001 Ross Avenue
Dallas, Texas 75265-5003

Re: Benefit Arrangements for Participants and Retirees in the Terminated LTV Steel Company Pension Plans

Dear Mr. Powers:

I was surprised at your inability to recall at the Bankruptcy Court hearing on July 16, 1987, the specific proposal made just a few days earlier by the Pension Benefit Guaranty Corporation ("PBGC") to address the needs of retirees and participants in the four terminated LTV Steel Company Pension Plans ("Plans"). Accordingly, I am writing to reiterate the proposal the PBGC made repeatedly during our meetings on July 10 and 13, 1987.

PBGC offered to appoint immediately a trustee under Section 4049 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), who would have the authority to collect amounts owed the Section 4049 Trust under Section 4062(c) of ERISA. These amounts, up to 75 per cent of "outstanding benefit commitments" under the Plans (*i.e.*, 75 per cent of the gap between guaranteed benefits and full benefit commitments), would be paid to participants in addition to the benefits paid by the PBGC. As you know, the total amount of the Section 4049 Trust's claim is approximately $150 million.

Because The LTV Corporation, LTV Steel Company and certain other entities liable to the Section 4049 Trust are in Chapter 11, payments to the Section 4049 Trust would normally be included in a plan of reorganization to be proposed at some future date and would not provide all of the amounts claimed by the Section 4049 Trust. To eliminate this delay and to provide immediate payment to retirees under the Trust, the PBGC offered to seek an agreement with the general unsecured creditors for immediate pre-funding of the Section 4049 Trust to the extent of the projected value of the Trust's claim.

Moreover, in our role as a creditor, PBGC offered to agree with the general unsecured creditors on *additional* funding of the Section 4049 Trust, beyond the actual value of its claim and up to total funding of $150 million. Such an agreement would be in the interests of general unsecured creditors as a means of averting a potential strike by the United Steelworkers of America and thus conserving the value of the estate.

Finally, PBGC stated that it would accept the establishment of a traditional, future service, defined contribution plan for active employees who are participants in the Plans. As you know, such a plan could provide generous benefits to LTV's workers without running afoul of Title IV of ERISA.

I trust this refreshes your recollection.

Very truly yours,

/s/ Royal S. Dellinger
ROYAL S. DELLINGER
Deputy Executive Director

[LTV Logo]
The LTV Corporation
Senior Vice President
and Chief Financial Officer

July 24, 1987

Mr. Royal S. Dellinger, C.P.A.
Deputy Executive Director
Pension Benefit Guaranty Corporation
2020 K Street, N.W., Suite 7000
Washington, D.C. 20006

Dear Royal:

Ray Hay has asked me to respond to your letter of July 23, 1987.

As you know, LTV Steel Company and the United Steelworkers of America negotiated the 1987 labor agreement over the course of many months. The agreement covers a variety of areas, including the following: (1) contributions by active and retired employees with cost of health insurance; (2) a manning agreement securing a reduction of 517 jobs; (3) consolidation of certain crafts which will eventually eliminate an additional 220 jobs; (4) education and training programs; (5) a new joint policy review committee; (6) a process for revising work rules at the plant level; (7) extension of the LSE electrogalvanizing plan participative management program to other facilities; (8) a defined contribution plan for future service of active employees, with contributions varying, based on age and seniority; (9) an insurance benefit option for employees who die while in active service; (10) a disability insurance program; (11) an early retirement benefit option for employees who reach 30 years of service after January, 1987; (12) benefits for employees who lose their jobs as a result of future shutdowns or extended layoffs; (13) severance payment for certain employees based on seniority and shutdown effects; (14) a revised supplemental unemployment benefit program for employees affected by shutdowns; (15) hardship payments

to current retirees (approximately 8,000) of a portion, averaging 92.25%, of the retirement benefits they lost as a result of the PBGC's action terminating the pension plans on January 13, 1987.

Each provision of this agreement itself involves complex arrangements for qualifications, distribution, funding and other matters. Each of these programs is new to LTV and has been framed through the collective bargaining process in negotiations with the USWA.

Your comments both at our meetings in Washington on July 10 and 13, 1987, and in your letter, seem to refer solely to items 8 and 15 above. With respect to the new defined contribution program, your comments do not make clear whether the PBGC objects, and, if so, on what basis, to the specific provisions of the LTV-USWA contribution plan. With respect to item 15, hardship payments to current retirees, your comments about a section 4049 trust are confusing to us, as we tried to suggest to you in our earlier discussions. First, nothing prevents the PBGC from appointing a 4049 trustee as the statute requires. Yet to date, although it has been more than six months since the plans were terminated, the PBGC has not taken action to activate this trust. Our agreement with the USWA provides that the contract benefit is offset by any equivalent benefit paid from a 4049 trust. Thus, the labor agreement anticipates and accommodates your comments. Second, your comment fails to address the payment we have agreed to make to current retirees in addition to the 75% payment which could be made by a 4049 trust, if one were appointed and the trust were funded.

Further, we have asked you repeatedly during the discussions in Washington whether and on what basis you can object to other provisions of the agreement including, for example, insurance programs for disabled workers or insurance benefits for widows, severance payments to the victims of shutdowns, supplemental unemployment benefits, the cost sharing gains from health insurance; the

manning and craft consolidation agreements or the other parts of this elaborate agreement. We have not received a response on these points. Your repeated suggestion that the LTV-USWA labor agreement is "substantially equivalent" to the terminated pension plans is plainly incorrect, as the information we have provided you demonstrates. Your point ignores the multiple differences in level of benefit, eligibility, funding, investment risk and structure of these diverse provisions in the 1987 agreement. It also ignores the realities of bargaining pursuant to the requirements of law with the union representing our active and retired employees.

LTV Steel Company and the USWA negotiated this agreement after exceedingly difficult and lengthy bargaining. The agreement remains subject to ratification by the rank and file of the United Steelworkers. If the contract is ratified, we intend to keep our part of the bargain. Consistent with that, I will repeat that we are prepared to discuss with you any thoughts you may have concerning different mechanisms for delivering the benefits we have contracted to provide. As Judge Lifland found last week, the 1987 labor agreement is a good contract for the company, its creditors, (including the PBGC) its active and retired employees and its shareholders. The costs of the new benefits are substantially offset with savings from other portions of the agreement. The contract promotes our prospects for a successful reorganization. It also assures labor peace for the reorganization.

If your agency has suggestions about the methods to provide these contractual benefits or the means of achieving these negotiated cost savings, we will be pleased to discuss them with you.

In addition as we have throughout these many months, we are always ready to meet with you, to talk about your

concerns, your position in the Chapter 11 proceeding and any other matters you wish to raise.

Sincerely yours,

/s/ J. F. Powers
J. F. Powers

cc: Lynn Williams

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C.
20006-1806

Office of the Executive Director

Jul. 24, 1987

Honorable Dan Quayle
United States Senate
SH-524 Hart Office Building
Washington, D.C. 20510

Dear Senator Quayle:

Enclosed are copies of letters to Lynn Williams and Raymond Hay reiterating the Pension Benefit Guaranty Corporation's ("PBGC") proposal to provide immediate relief to retirees and participants in the terminated LTV Steel Company Pension Plans ("Plans") while complying with Title IV of the Employee Retirement Income Security Act of 1974, *as amended*. PBGC made this proposal to representatives of The LTV Corporation, LTV Steel Company (collectively, "LTV") and the United Steelworkers of America ("USWA") during meetings on July 10 and 13, 1987. If it is accepted by LTV and the USWA, the PBGC remains willing to implement the proposal.

The PBGC believes its offer addresses the needs of participants and retirees and avoids costly and unnecessary litigation.

Very truly yours,

/s/ Kathleen P. Utgoff
KATHLEEN P. UTGOFF
Executive Director

Enclosure

[LTV Logo]

The LTV Corporation
Senior Vice President
and Chief Financial Officer

July 27, 1987

Mr. Royal S. Dellinger, C.P.A.
Deputy Executive Director
Pension Benefit Guaranty Corporation
2020 K. Street, N.W.
Washington, D.C. 20006-1806

Re: Your July 23, 1987 Letter to me on the Subject of Benefit Arrangements for Participants and Retirees in the Termination LTV Steel Company Pension Plans

Dear Royal:

Last Friday at Ray Hay's request I request I responded to the letter which you sent to him on the above referenced subject which we had received via telecopy from our outside counsel. Inasmuch as the letter you sent to me appears to be identical to the Hay letter except for the opening and closing paragraphs, I will not, in this letter, reiterate my earlier response. The purpose of this letter is to respond to the comments in your letter which were directed at me personally.

Royal, I doubt the surprise expressed in your letter could approach the level of my surprise at receiving it. While it is certainly true that the parties, among other things, discussed the use of 4049 trust and defined contribution plans I left those meetings, as did the other LTV participants and outside professionals, with the distinct impression that no meaningful comprehensive proposal was made by the Pension Benefit Guaranty Corporation. We reached this conclusion for the following reasons:

1. Your refusal to deal on an item by item basis with the various facets of the complex agreement which was negotiated between LTV Steel and the

United Steelworkers of America. I believe the PBGC representatives effectively told us the overall agreement reached by the parties was not acceptable but offered us no suggestions on dealing with the specifics of the settlement on an item by item basis.

2. Gary Ford made it very clear at both the July 10th and 13th meetings that nothing was on the table unless a total agreement was reached. Quite frankly, he mentioned this so many times at the meeting on July 13th I thought he was doing so to warn the company and the United Steel Workers of America against alleging to other parties that the PBGC was agreeable to anything.

Royal, as you well know the LTV Chapter 11 case is extremely complex and has imposed significant burdens on those people both within and without the company who are either affected by it or who must deal with it. For my part, I have tried to deal fairly with each of the numerous parties who have an interest in the case and will continue to do so with the PBGC. While your comments will not prevent me from continuing this process they will obviously dictate a more formal approach on any discussions and/or negotiations in which we engage.

Very truly yours,

/s/ J. F. Powers
J. F. Powers

SUMMARY

[USWA Logo and Pictures Omitted in Printing]

Proposed Agreement
United Steelworkers of America

and

LTV Steel Company, Inc.

August 1987

Introduction

To All Active and Retired USWA Members Employed by LTV Steel Corp. and Its Predecessor Companies:

"The test of a union is not in periods of prosperity, but in times of adversity."

—*Philip Murray*

During our periods of prosperity, The United Steelworkers of America (USWA) fought to achieve the highest wages and the best benefits in industrial America. Since 1982, our industry, the steel industry, has gone through times of adversity worse than the Great Depression of the 1930s.

Now the USWA is fighting to preserve as much as we can of the gains we made earlier . . . and struggling to survive until prosperity returns. The LTV Steel bankruptcy is one of our major adversities.

This booklet describes a tentative settlement which has been negotiated with LTV Steel Corp. We urge you to read it carefully—and then judge for yourself what course of action you wish our union to take.

In a separate mailing, the active members will receive ballots shortly after the bankruptcy court approves our proposed agreement. The vote is really between two choices—to accept this settlement or to fight on the streets to try to improve it.

The decision must be made now. USWA active members will shoulder the burden of the fight. Accordingly, the USWA Constitution and policy resolutions provide that active members alone make that decision.

This is not a contract we chose to negotiate voluntarily. But if we had *not* negotiated, we would have put your fate into the hands of the bankruptcy judge, who has the authority to permit LTV Steel to unilaterally impose new terms and conditions. The results could have been disastrous.

[Picture Omitted in Printing]

[Caption:] *Members of the USWA LTV Negotiating Committee at LTV Steel (first row seated, left to right) are: Ken Saltz, Massillon; Rudy Kogut, Canton; Gary Bone, Gadsden; Ray Gladys, Cleveland; Mike Cable, Nitro, W.Va.; Dave Anderson, Massillon. In the first row, standing are: Bob Kovacevic, director, USWA Collective Bargaining Services (left); Al Forney, Cleveland (right). In the second row, seated, left to right, are: John McGarry, Youngstown; Maury Richards, Chicago; Lou Chastain, Canton; Tony Francesco, Beaver Falls; Rick Zimmer, Hennepin; Richie Vallecorsa, Aliquippa. In the back row, standing, left to right are: John Sako, Indiana Harbor; Matt Turner, ore mines; Jim Smith, USWA assistant to the president; Tony Rainaldi, director, USWA District 20; Joe Coyle, director, USWA District 27; Bill Burga, assistant to Coyle; Andy Toth, USWA benefits technician; Lou Vendetti, Cleveland; Gene Ghay, grievance chairman, Cleveland. (Several of the USWA/LTV Steel local union presidents were unable to be present when this photo was taken.)*

On June 25, 1987, the USWA Negotiating Committee voted 23-14 to submit this agreement to the active members with a recommendation for ratification. The International Executive Board has also approved that recommendation.

Earlier in June, the USWA Negotiating Committee requested each local union to authorize economic action by the active members if a satisfactory settlement could not be reached. Every local union approved that resolution during June meetings. In essence, the local union presidents' committee has determined not to take economic action if this tentative settlement is satisfactory to you—the active members. However, if you determine that it is not satisfactory, the committee will call on your support

in whatever action is necessary to force LTV and the creditors to agree to a more favorable settlement.

The reasons a majority of the committee recommend your approval of this settlement are as follows:

• WAGES—There will be *no reductions* in the present wages, or wage-related benefits, such as overtime, premium payments, incentives, etc.

• VACATIONS & HOLIDAYS—There will be *no reductions* in the present vacations or holidays.

• PENSIONS—A new pension system is created which, although *not* as good as our old pension, is by far the best which has been negotiated with any basic steel company in bankruptcy.

• RETIREE PENSIONS—The settlement restores most of the losses suffered by 8,000 retired LTV steelworkers retroactive to Feb. 1, 1987.

• INSURANCE—The health insurance benefits *will not be reduced*, although a small monthly contribution will be required from the profit sharing plan for active employees and directly from retirees. If profits are high enough, the pensioners' contributions for insurance will also be partially or totally reimbursed from our profit-sharing plan.

• OTHER INSURANCE—There will be *no change* in the life and sickness or accident benefits.

• WORKING CONDITIONS—To remain competitive, the present 20,000 workers in LTV plants will be reduced by approximately 500—by attrition only. *No employee will be laid off* as a result, or suffer any loss of earnings. Lump sum bonuses will be paid for early retirement, up to a maximum of $25,000.

• CONTRACTING OUT—There will be *no change* in the new contracting out provisions of the labor agreement.

• TRADE AND CRAFT—Where trade and craft combinations have not already been made, the company may offer certain combined craft jobs for bid in the future. The job security and seniority of any craftsman *who does not wish to promote* are fully protected.

• EDUCATION—For the first time ever, we have won company-paid education assistance for plant employees.

The majority of the USWA Negotiating Committee is convinced that we *cannot make further* improvements in this settlement without taking economic action. We have worked at these negotiations diligently for five months, and are convinced this is the best that can be done under the circumstances.

The USWA has compared the benefits of this tentative settlement with the alternative—*economic action now.* There are risks on each side of the comparison.

If we accept this settlement, the total number of employees will be reduced during the next year to two years by approximately 500—through attrition.

If we reject this settlement and take economic action, our active members will probably be in for a long struggle, as we were at Wheeling-Pittsburgh and at USX. We believe we will have the same legal arguments—such as what constitutes a lock out—but there is no guarantee that the courts will agree.

Furthermore, some of the marginal LTV plants, which employ approximately 3,700 active members, may not reopen after a long struggle. The majority of the committee believes that under these circumstances the best interests of the greatest number of active members will be served *by accepting* the tentative settlement described in this booklet.

Your USWA Negotiating Committee and the International Union believe that the settlement agreement de-

scribed in this booklet should be ratified by the active members. But you have the final voice.

Make no mistake. If this settlement is rejected by the majority, we have one course left. We all know what that is. But if we act, we must act promptly and we must be prepared for a long and bitter struggle. Your Union is ready to commit its total resources to such a struggle if that's what the majority decides.

We ask you to give your full support to the judgment of the majority, as we will do.

To deal with Steelworker problems during these times of adversity, we must stand united now, just as the men and women who built our Union were united in the past.

Sincerely and fraternally,

/s/ Lynn R. Williams
LYNN R. WILLIAMS
International President
United Steelworkers of America

/s/ Tony Rainaldi
ANTHONY RAINALDI
Director, District 20
Chairman
USWA Negotiating Committee
at LTV Steel Corp.

/s/ Joseph M. Coyle
JOSEPH M. COYLE
Director, District 27
Secretary
USA Negotiating Committee
at LTV Steel Corp.

[Picture Omitted in Printing]

[Caption:] *District 31 Director Jack Parton at Indiana Harbor announces victory in LTV insurance strike.*

Ratification Procedure

The tentative settlement will be submitted to the bankruptcy judge Thursday, July 16, 1987, by LTV and the USWA jointly. *The PBGC has announced that it will oppose the settlement.*

Some of the other creditors may also oppose the settlement, but we believe a majority of them will accept it. If the judge approves the settlement, the final decision will then be up to USWA active members.

Ballots will then be mailed under separate cover within the next week, along with instructions for completing and returning them. Please observe the deadline stated in the ballot information package, and make such your ballot is returned in time to be counted.

We urge you to read the information in this booklet carefully, attend the membership meetings that will be scheduled, and then vote. If you have any questions, contact your local union representative.

If a majority of the active members who vote determine to reject this settlement, then we will take economic action together, promptly. We have faced adversity together before, and we have defeated it. Your Union will continue to use its total resources, from the local level to the international headquarters to fight for your best interests.

If a majority of the active members who vote accept this settlement, it will become effective immediately. However, that may not be the end of our fight. The Reagan Administration may not be willing to accept the judgment of the court or the majority of our active members.

Dates in Proposed LTV Contract

Here are important dates in the proposed settlement:

• The USWA/LTV Steel labor contract becomes effective upon membership ratification. It specifically prohibits the company—for so long as LTV is in Chapter 11—from seeking bankruptcy court approval for further contract changes.

The contract will continue in effect until the company receives approval of its reorganization plan from the bankruptcy court and then emerges from bankruptcy—with a deadline of Feb. 15, 1990. If reorganization does not occur by that date, either side may ask for renegotiation of economic matters. If no settlement is reached by April 15, 1990, either side may resort to economic action.

• The defined contribution pension plan for active workers and changes in the SUB program are retroactive to Jan. 13, 1987.

• Restoration of pension benefits to retirees will be retroactive to Feb. 1. The money will be paid in a lump sum, minus the one-time hardship payment that was made in April.

• The "Insurance Agreement" and "Pensioners' and Surviving Spouses' Insurance Agreement" will be effective Oct. 1, 1987.

Contents

[USWA Logo]

Published by the United Steelworkers of America as a report on the proposed August 1987 agreement with LTV

Steel Company, which was mailed to about 20,000 employees who are members of the Union. This booklet was also mailed to about 45,000 retired employees of LTV Steel, who are represented by the USWA. The summary explanation about the proposed agreement was produced by technicians and staff members of the USWA's International Headquarters, Five Gateway Center, Pittsburgh, Pa. 15222.

New Pension Agreement/Background

The pension plans under the basic steel industry labor agreements have always been "defined benefit plans." This means that the company is obligated to provide full benefits of the plan, regardless of cost. The benefits are actually paid from a fund to which the company contributes.

In the late 1960s and early 1970s, our Union, and others, were concerned that many defined benefit plans were underfunded. Therefore, if a company liquidated, through Chapter 7 bankruptcy, its retirees and active workers might never get any pensions.

[Picture Omitted in Printing]

[Caption:] *The proposed new agreement provides substantial restoration for LTV retirees, with some recouping 100 percent of the monthly pension supplements terminated when the PBGC took over the pension plans.*

We took our problem to Congress and achieved passage of the Pension Reform Act, which created the Pension Benefit Guaranty Corporation (PBGC). The Internal Revenue Service is supposed to oversee the funding of plans, and the PBGC provides insurance for most of the benefits under such plans.

The federal government has not done a good job of requiring adequate funding of defined benefit plans under the Reagan Administration. Nevertheless, the PBGC is

still required by Congress to provide insurance guarantees for the benefits of plans which are terminated.

When the PBGC terminated your pension plans on January 13 of this year, it took the responsibility of paying your pension earned up to that date, subject to its rules.

Your Frozen Pension:

In this booklet we will use the term "*frozen pension*" to refer to the pension PBGC will pay you (or if you are retired, what the PBGC is now paying you).

If you are still an active worker, the *amount* of your frozen pension is the same as it would have been if you had been eligible to retire on January 13, 1987, and is calculated the same way our prior pension agreement provided for. Therefore, your minimum frozen pension would be $17.50 per month per year of service as of Jan. 12, 1987 up to 15 years; $19 per month for each year of service from 15 to 30 years; and $20.50 for each year of service over 30.

Examples of minimum frozen pensions are shown below:

EXAMPLES:

FROZEN PENSIONS

Service at 1/12/87	Minimum Frozen Monthly Pension
10 years	$175.00
15 years	$262.50
20 years	$357.50
25 years	$452.50
30 years	$547.50
35 years	$650.00

Your frozen pension could be higher than the minimum amount if your earnings were high enough, as a result of the percent pension formula negotiated under our prior pension agreement.

Your frozen pension will be subject to the maximum payable by the PBGC at your age of retirement. For those who were already retired on January 13, 1987, the PBGC maximum was calculated on the basis of their age (or their spouse's age) on January 13, 1987. Approximately 500 out of 44,000 retirees are affected.

The PBGC monthly maximum benefits for retirement at age 50 or higher are shown below.

Maximum Benefits

Age	PBGC Maximum
65	$1,858
64	$1,728
63	$1,598
62	$1,468
61	$1,338
60	$1,208
59	$1,133
58	$1,059
57	$ 985
56	$ 910
55	$ 836
54	$ 799
53	$ 762
52	$ 725
51	$ 687
50	$ 650

When PBGC Pays Your Frozen Pension:

- At any age, if you had 30 or more years service *on or before* 1/12/87 and retire.
- At age 62, if you retire on or before age 62, or at time of retirement if later than age 62, for most workers.
- At age 65, if you had less than 40 years of age or 15 years of service on 1/12/87.

When PBGC Will Not Pay a Frozen Pension:

PBGC will *not* pay a frozen pension to the following groups of employees *until* they become age 62 or 65, as spelled out above:

- Employees who complete 30 years of service after 1/12/87.
- Employees who become disabled after 1/12/87.
- Employees caught in shutdowns after 1/12/87.

Although PBGC will pay Spouses' Pension to spouses of *retirees* who die, PBGC will *not* pay Spouses' Pensions to widows of active workers who die after 1/12/87.

PBGC will *not* pay any frozen pensions to employees who had less than 10 years' service on 1/13/87, as they were not vested under PBGC rules.

Finally, PBGC does *not* pay pension supplements to those retired before 1/12/87 on 70/80 or Rule of 65 pensions.

New Pension Agreement:

Since PBGC terminated the LTV Steel pension plans, the PBGC will not now insure the benefits of any new defined benefit pension plan for LTV Steel employees. This has been our major problem in negotiating a new pension agreement.

We have had a team of highly trained actuaries and attorneys working with the Union's pension experts and the USWA Negotiating Committee through months of meetings with LTV, trying to solve this and other problems.

Out of those meetings has come a new pension agreement which we believe provides the greatest possible security for benefits which can be obtained under the present law.

Enclosed with this summary explanation is a separate booklet sent to active members only entitled **"Special Benefit Programs."** In it, you will find other new features of the pension agreement contained in this tentative settlement. They are:

- Disability Pensions
- Widows' Pensions
- 30 and Out Pensions
- Shutdown Benefits

A new "defined contribution plan" is described in the following section of this booklet to provide pension benefits for service *after* January 12, 1987.

On page 5 of this booklet is a full explanation of monthly benefits we negotiated for the 8,150 retired steelworkers who lost supplements, or parts of their regular pensions, when PBGC terminated the Plan on January 13, 1987.

Retiree Benefit Restoration

One of the most severe aspects of the LTV bankruptcy has been the suffering the Pension Benefit Guaranty Corp. imposed on 8,150 retirees when it terminated the pension plans.

The PBGC has denied these retirees their $400 monthly supplemental pension benefits and/or reduced their regular pension benefits.

This agreement provides substantial restoration, with some retirees recouping 100 percent, retroactive to Feb. 1. There will be a deduction to recover the hardship payment that was made in April.

Here is the schedule:

- Those retirees who are receiving $550 or more per month from the PBGC will recover 90 percent of their losses.
- Those retirees who are receiving between $400 and $549 per month will recover 95 percent.
- Those retirees receiving less than $400 will receive 100 percent restoration.

Folowing are some typical examples, with pre-termination benefits listed first:

1. **A 70/80 retiree with a base benefit of $600 per month and a $400 supplement until age 62.** PBGC will continue paying the $600. LTV will pay $360 (90 percent of $400) until age 62, for a total of $960 per month. This is equivalent to 96 percent of the pre-termination benefit.

2. **A 30-year-and-out retiree, age 52, with an $800 monthly base benefit.** PBGC pays $725 for life. LTV pays $68 per month (90 percent of $75) for life. The total benefit of $793 is 99 percent of pre-termination benefits.

3. A Rule of 65 retiree with a $300 base benefit and $400 supplement until age 62. PBGC pays $300 for life. LTV pays $400 until age 62, for a total benefit of 100 percent.

The maximum restoration by LTV is $1,200 per month.

Defined Contribution Plan

If you retire any time in the future, you will receive a monthly annuity based upon your service *after January 12, 1987*, in addition to your frozen pension from the PBGC. This annuity will be purchased for you from an insurance company with the money accumulated in an individual trust fund account in your name.

The new pension agreement in this tentative settlement spells out the amount LTV must pay in each month for you. The money will be invested by investment managers hired by a "Joint USWA-LTV Committee." When you retire, you will be given the option of various types of annuities you can purchase with the money in your account.

EXAMPLE:

An employee who had 15 or more years' service on January 13, 1987, who earns the current LTV average hourly pay under our contract until retirement, and who takes a 50 percent joint and survivors' option, could receive the following annuities, depending on his age on January 13, 1987:

	Monthly Annuity	
Age on 1/13/87	Retirement at Age 62	Retirement at Age 65
35	$907	$1,278
40	682	981
45	482	715
50	311	489
55	168	300

An employee whose earnings were above average could receive more, and an employee whose earnings are below average could receive less. The actual monthly annuity will also depend upon the earnings of the trust fund.

In this example, because it is based on a 50 percent joint and survivors' option, if the pensioner dies his widow

would receive one-half of the amounts shown for life, from his annuity.

The preceding example is calculated on the assumption of 7 percent annual rate of earnings of the trust fund. Benefits could be higher if the trust fund earns more than 7 percent per year interest, or lower if the fund earns less.

The benefits under this Plan will not be insured by the PBGC. They will be *"guaranteed"* in the sense that the company *must* pay contributions for these benefits each month to a Trustee. The trustee will be a major bank which will be legally responsible for protecting the funds until each employee retires, dies, or terminates.

Contributions To The Fund

Retroactive to January 13, 1987, the company will contribute a minimum amount to the Fund for your account, based upon your age as of January 1 of each year. The following table shows the minimum amount:

Age as of January 1	Amount Per Hour
Under 30	$ .21
30-34	.29
35-39	.38
40-44	.49
45-49	.62
50-54	.78
55-59	.96
O and over [sic]	1.14

If you have 15 years of service since your date of hire, as of January 1, of any year, you will be eligible for a higher contribution based upon earnings. To calculate this contribution, the company will determine your earnings rate for each pay period and multiply that rate by the number of hours you were paid in the pay period, up

to 40 hours per week. The resulting amount for the pay period will then be multiplied by a percentage based upon your age to determine your maximum contribution. The percentage table is as follows:

Age as of January 1	Percent of Earnings
Under 35	3.0%
35-39	4.0%
40-44	5.0%
45-49	6.0%
50-54	7.0%
55-59	8.5%
Over 59	10.0%

If the maximum contribution is higher than the minimum contribution, the higher amount will be paid into your account.

Most plans of this type require contributions only for the hours you actually work. That's good when you work overtime, but bad if you are off because of sickness or layoff. Under this plan, your contributions will be based on 40 hours per week, *including weeks of sickness or layoff up to 2 years.* Workers off due to occupational disability may have contributions made even longer.

Administration Of The Trust Fund

As stated above, the company will contribute to each employee's account monthly. If it fails to do so, the Union can file a lawsuit in court and collect a contribution due plus a penalty of 5 percent, plus 1 percent for each week of delay after five weeks. Any penalty payments will be added to each employee's account.

You will receive an annual report showing your account balance and the approximately annuity it would provide.

Any dispute as to your account balance, eligibility for benefits, etc. will be processed in the grievance and arbitration procedure.

A "Joint USWA-LTV Committee" will select the Trustee for the Plan, make the investment policy, select investment managers, and select insurance companies to bid on the annuities.

How Benefits Will Be Paid

You may elect to receive up to $10,000 cash from your account whenever you retire or terminate. The balance will be paid to you in an annuity, unless it is below $3,500. In this case, the Trustee may also pay it in a lump sum.

You will have a number of options to purchase an annuity with your account. You and your spouse may elect a monthly income for the rest of your life, with or without an option for a guaranteed minimum payment in the event of your early death. Or, you may receive a "Joint and 50 percent Spouse Annuity." With it, you receive an actuarially reduced monthly benefit for life and, upon your death, your surviving spouse gets 50% of what you received.

If you terminate before you wish to retire, you can also elect to leave your money in your account to earn interest, and then purchase an annuity when you retire.

If your die before you retire, your spouse receives the full value of your account, with the same cash options as you would have had. Your spouse may also be entitled to a "Pre-Retirement Surviving Spouse Benefit" discussed more fully in the "Special Benefit Programs" booklet, which was sent to active members at LTV.

If you are single, you may designate a beneficiary to receive your account.

Vesting In The Plan

You are probably already vested. You only need 5 years of service, *including service before January 13, 1987* to vest. A new employee's account will also be vested if he dies or becomes disabled before earning 5 years of service.

Employees With No Frozen Pensions

As mentioned above, employees who had less than 10 years of service on January 13, 1987, were not vested under the prior pension plan in the eyes of the PBGC, and will receive no Frozen Pensions. Their contributions into the new trust fund will be 1½ times the minimum formula for the number of months equal to the number of months of service they had *before* January 13, 1987.

Supplemental 401(k) Plan

The new pension plan will have a supplemental tax-free 401(k) Plan with it. Beginning in January, 1988, you can transfer up to 10 percent of your earnings, or $7,000 per year, whichever is less, into the 401(k) Plan.

In addition, you may elect to put all or part of your profit sharing distributions in your 401(k) account.

You can collect from your 401(k) account in any combination of cash or annuities when you quit, die, retire, or reach the age of 59½. You will also be able to borrow against your 401(k) account. A full explanation of the 401(k) account wil be provided to you before January 1, 1988.

Retiree Insurance

The "Program of Insurance Benefits" under the prior insurance agreement between the Union and LTV is continued under this tentative settlement. Therefore, an employee who retires will be eligible for retiree health and life insurance under the same eligibility rules as the prior agreement.

However, if an employee terminates before reaching eligibility for retirement under the prior agreement, retiree insurance will not be provided, even though the employee will receive cash and/or an annuity from the trust fund account.

Insurance Benefits

The company demanded early in these negotiations that our "Program of Insurance Benefits" for active and retired steelworkers be slashed drastically, as LTV Steel had already done to the non-union employees' insurance plan.

The USWA Negotiating Committee absolutely refused to consider any reduction of benefits.

Although we finally had to agree to small monthly contributions, the union position prevailed on the benefits issue.

There will be *no change* in any of the benefit provisions of any of the health, life or other insurance programs for either active employees or retirees, under this proposed settlement.

Contributions By Active Employees:

The amount of contributions towards insurance premiums for both active employees and most retirees will be $26.82 per month, *beginning October 1, 1987.*

The active employees' contribution will be paid out of the profit-sharing pool, on an annual basis. It will *not* be paid out of employees' pay checks.

In any year in which the profit sharing pool is not large enough to pay the contributions, they will go unpaid until the profit sharing pool is large enough in a future year to pay them.

Contributions By Retirees:

Retirees or surviving spouses whose monthly retirement income from LTV and PBGC is less than $200 will pay no contribution. Those whose monthly retirement income is more than $200 but less than $226.82 will pay the difference, out of their pensions. Those whose monthly retirement income is greater than $226.82 will pay $26.82, out of their pensions, under this tentative settlement.

[Picture Omitted in Printing]

[Caption:] *Last July, USWA President Williams authorized a work stoppage at LTV's Indiana Harbor Works to fight the termination of insurance benefits (above). Frank Valenta, director of USWA District 28, led a demonstration in Cleveland (right).*

If profits exceed $200 million in any year, 10% of the profits above $200 million will be used to reimburse retirees for contributions they have made during that year.

Coverage of Insurance Programs:

In general, coverage of the active and retired insurance programs will be the same as in the past.

Retirees or surviving spouses who prove that they have other group coverage (either through their spouses's [sic] employer or another job) may elect out of the retiree health insurance program. When the other group coverage is no longer available, the individual will have 30 days to return to the retiree program. The monthly contribution of $26.82 will only be due when the individual is covered under the program.

During November 1987, pensioners and surviving spouses will have a one-time opportunity to enroll in the "Optional Major Medical Program." This coverage, if elected, will become effective on January 1, 1988. The monthly cost for Optional Major Medical is *in addition*

to the $26.82 monthly contribution for Basic Hospital and Medical coverage.

There will also be a one-time open enrollment period for HMOs in November 1987. For those who elect an HMO, coverage will be effective January 1, 1988. Remember, if there is an additional charge for a particular HMO, that amount will be deducted from monthly pension payments.

[Picture Omitted in Printing]

[Caption:] *USWA President Lynn Williams (seated, second from left) testified before a U.S. Senate committee in April to criticize the LTV Steel decision to terminate retiree insurance benefits.*

Trade & Craft; Jobs & Protections

In an array of protections for affected employees, the tentative agreement enables the company—where it has not done so already—to install 10 of the combined and/or expanded trade or craft jobs established in our 1986 negotiations, unless LTV has locally agreed otherwise.

The Union conducted talks on this subject with one overriding concern—any change must *benefit* our members, not victimize them. So we wrote these safeguards:

- Trade and craft workers who have the skills to meet the challenges of new technologies and equipment will be allowed to bid to those jobs if they wish to.
- Trade and craft workers who do not have the requisite skills must be given every opportunity to develop them if they wish to promote.
- And, above all, benefits accruing to the company because of these changes must be shared in by the workers, both in wages and employment security.

Here is a summary of the trade and craft proposal:

- A *"Joint Local Plant Implementation Committee"* will be established at each plant to consider all implementation matters.
- No current incumbent of a Source Craft Job will be laid off as the result of the establishment of an Expanded Trade or Craft Job under this agreement.
- In the event circumstances require a force reduction, seniority will prevail. For example, a junior incumbent of an Expanded Trade or Craft Job *will not* be retained over a senior incumbent of a Source Craft Job.
- A special payment of $3,000 will be made to a current incumbent of a Source Craft Job who promotes to an Expanded Trade or Craft Job.
- An *"Apprenticeship Training Program"* will be established by the company for all Expanded Trade or craft jobs.
- Training will be provided to permit employees to qualify for higher rates.
- Expanded Trade or Craft jobs will be [word illegible] by incentives.
- All current incumbents of Source Craft jobs will be given the opportunity to promote—*but they are not required to promote.*

[Picture Omitted in Printing]

[Caption:] *LTV steelworkers ratified an agreement in April 1986 with many features still preserved in the new proposal.*

The Settlement—How We Got There

Here's a review of the events which led us to reach this settlement.

- April 4, 1986—Active members accept heavy sacrifices in hopes of keeping LTV out of bankruptcy.

• April-June, 1986—Demand for steel falls, orders decline sharply and steel prices drop even more notwithstanding new labor agreement. LTV unable to renegotiate its debts.

• July, 1986—Company files Chapter 11 bankruptcy, cancels iron ore, coal, other raw materials and power contracts.

• July, 1986—The company causes major confrontation by cancelling retiree health and life insurance. In response, President Williams immediately authorizes a phased work stoppage beginning at the Indiana Harbor Works. As Cleveland and Hennepin prepare to join the stoppage, LTV agrees to restore retiree insurance retroactively. Some of the creditors oppose bankruptcy court approval of the restoration and appeal to the federal district court.

• September, 1986—LTV Steel faces a $215 million payment obligation to its pension funds due on the 15th. Union representatives on the bankruptcy Creditor's Committee learn that the creditors and the judge will not approve the loans needed to meet that payment. IRS and the Pension Benefit Guaranty Corporation (PBGC) propose actions leading to termination of pension plans.

• October, 1986—Union urges IRS and PBGC to stay their hand while we negotiate. We begin discussions with LTV for a new pension program to take effect if existing plans are termiated. Company proposes wholly unsatisfactory pension program and in addition demands as part of this bargain, drastic reductions in active and retiree health insurance benefits. Union refuses company demands.

• January 13, 1987—PBGC terminates your pension plans.

• January 15 to date—Union files suit on behalf of active employees and retirees against LTV for the difference

between PBGC payments and benefits promised by the pension agreement. Bankruptcy judge indefinitely postpones decision and insists, instead, that Union negotiate settlement with company and its creditors.

Manning & Employee Protection

One of the most difficult issues confronting the USWA Negotiating Committee was the company's insistent demand for extreme measures designed to reduce man-hours per ton.

From the very start of our negotiations, LTV Steel sought the unilateral right to slash the numbers of employees in non-craft jobs with virtually no restraints or protections. To make matters worse, the company pressed for the added freedom to eliminate break time, lunch periods, and a host of other "local working conditions." In all, the company demanded authority to eliminate roughly 700 employees throughout the company.

In the face of these demands, your negotiating committee went to work. We fought LTV's extreme positions as rationally and humanely as possible. The Union's emphasis was on limiting the company's proposals and at the same time securing a package of employee protections and inducements that would preclude layoffs as a result of this agreement, pay attractive bonuses, and include a variety of protections. The result is a *"Manning and Employee Protection Agreement."*

First, we backed LTV off its demand for extensive work rule changes and confined the discussions to manning reductions only.

Second, we secured the principle that a *voluntary* job departure *must* occur *before* any job can be reduced. This means quite simply that no employee can be laid off as a result of the manning agreement. On this point, the tentative agreement speaks in plain language: "no

permanent or temporary employee will be laid off as result of implementation of this [manning] agreement."

Third, to assure voluntary departures, the agreement creates a new severance benefit for those eligible employees who wish to depart their jobs and accept a cash payment of up to $25,000, plus continued insurance rights.

Fourth, we demanded that the company reduce its overall manning "bogey" or target by almost 30 percent. Throughout the entire corporation, this voluntary, no-layoff program will result in a reduction of approximately 500 non-craft employees, not the 700 originally sought by the company.

Fifth, this final company proposal for a settlement pinpoints the specific jobs—the only jobs—that may be reduced under the manning agreement. In a separate sheet inserted with this booklet, the affected jobs in your local union are identified.

[Picture Omitted in Printing]

[Caption:] *LTV's efforts to cut jobs and wipe out work rules were dramatically halted in the proposed agreement.*

Sixth, we obtained a package of protections to assure that these manning reductions not only cause no layoffs, but will be accompanied by important protections in incentive and non-incentive earnings, incumbency rights, and job evaluations.

Seventh, we made sure that the company must eliminate a proportional number of management jobs which is equivalent to 2.6 percent.

Finally, in return for an agreement on this difficult issue, we exacted an important concession: the company cannot go back to the bankruptcy judge during the term of this bankruptcy to seek any further modification or reductions of any part of our labor agreement.

Here are the important details on the "*Manning and Employee Protection Agreement*."

Once the company proposes a manning reduction, it must hold off implementing it until a permanent vacancy has been created either by normal attrition after the date of this agreement in the affected unit or department, or by the acceptance of a cash severance bonus by an eligible employee.

The cash bonus is $1,000 per year of service with a maximum "cap" of $25,000. The bonus is offered to employees in three stages: first, to permanent employees in the affected unit; next, to permanent employees in the affected department; and finally, to employees plant-wide. At each of these three levels, seniority will determine who may receive the bonus.

The cash bonus may be received in a single lump sum, or divided equally between an immediate payment followed by another payment at the start of the next year. Those who are not eligible for an immediate pension will be eligible for up to two years of extended insurance coverage, depending on seniority.

If you accept a cash bonus, the company may keep you on the job for up to six months longer if your work is needed to assure continuity of operations.

As added protections, the tentative agreement assures employees who remain after a manning reduction that they will receive appropriate adjustments in incentive pay, that combined jobs will be re-evaluated under the CWS manual, and that seniority incumbency rights will be unaffected by the agreement.

The Manning and Employee Protection Agreement is a one-time understanding that sets no precedent and

affects no local practices except to the limited extent needed to implement the agreement.

Table A on this page identifies the local unions involved. Full details of the manning changes proposal are contained in a separate insert page sent to all active USWA members with this summary explanation.

TABLE A

Local Union No.	Reduction
185	35
188	147
1011	51
1033	4
1098	15
1124	33
1157	23
1179	15
1200	86
1211	13
1272	9
1331	14
1566	21
1843	17
2265	8
2327	1
2345	4
3127	1
7367	19
TOTAL:	516

Employee Investment Program (EIP)

The 1986 agreement between the USWA and LTV Steel imposed sacrifices on active steelworkers averaging $3.15 per hour. It also provided a profit-sharing and stock plan to restore as much as possible of those sacrifices.

How The Program Will Work:

Under the Employee Investment Program (EIP), steelworkers will share 10 percent of LTV Steel's first $100 million of pre-tax profits each year, and 20 percent of all pre-tax profits over $100 million. Whatever sacrifices are not recovered from profit-sharing are to be compensated for with $16.00 shares of a new *preferred stock* of LTV Steel, under Stock Ownership Plan.

After the stock is put in the EIP accounts each year a member can:

• Convert shares of LTV Steel *preferred* to an equal number of shares of LTV *common* at any time, and either sell or hold the *common*, and/or;

• *Leave preferred stock* in his account until termination of employment, and accumulate annual 5 percent dividends.

If the member converts his *preferred*, he can withdraw the common stock, or the cash it sold for, on any month two years or more after the *preferred* was contributed. If LTV common is selling for less than $16.00, as it is now, the member loses the difference by early withdrawal.

Preferred stock left in the accounts until termination of employment has a more secure value. When the member terminates, it will also be converted to LTV *common*. Then the *common stock* can *be withdrawn, or sold and* the cash withdrawn. In this case, however, the member has a "*shortfall right*" to any loss because the *common* sold for less than $16.00 a share.

[Picture Omitted in Printing]

[Caption:] *USWA active and retired members united behind union negotiators to gain protections from the impact of LTV's bankruptcy.*

The "shortfall" becomes a priority claim on the following year's profit-sharing pool.

Why Hasn't The 1986 EIP Worked?

The LTV bankruptcy caused serious legal problems in putting the EIP into effect. Corporate bankruptcy lawyers hired by the Union have been working to iron out these problems.

Our lawyers advise us they believe they have solved the various legal problems, and that a motion should go before the bankruptcy judge this month for stock to go into the accounts. When the stock is contributed, each member will get a report on his account.

Were Profits Actually Earned in 1986?

After it went into bankruptcy, LTV Steel began to show an *operating profit*. LTV should, because it is not making pension contributions for you, or paying interest on its debts. Furthermore, LTV canceled all of its raw material contracts and began buying coal, iron ore, and power at much cheaper prices.

All of these and other unpaid past and future obligations become claims in bankruptcy court. LTV put all claims, both past and future, on its books as expenses in mid-1986, along with the expense of shutting down facilities the company expected to close. As a result, it reported huge losses for 1986.

During 1987 negotiations the Union believed, at one point, that a small profit-sharing pool of $3 million should have been reported for 1986, if the bankruptcy-related expenses had been excluded from profit-sharing calculations. Our analysis of these costs showed, however, that those related only to 1986 were large enough to wipe out any possible profit.

If, in 1987 or any other year, LTV charges future expenses which would affect your profit-sharing, the company is on notice that we will arbitrate.

What Will Change In The EIP?

There will be *no changes* in the EIP with respect to 1986 sacrifices. The average employee who worked throughout 1986 should receive about 330 shares of LTV Steel *preferred stock* in his stock plan account in the near future.

During 1987 negotiations we were told again and again by members not to agree to any further cuts in wages—that if further sacrifices had to be made to get an agreement approved by the bankruptcy judge, we should negotiate to take it out of the Employee Investment Program.

The USWA did exactly that. As explained in the insurance benefits section of this booklet (see page 8), the EIP investments will be affected for 1987, 1988, and 1989 by the insurance contributions of $26.82 per month, after October 1st of this year.

The effects will be:

• Active employees' insurance contributions will come out of the profit-sharing pool, after all "*shortfall*" payments are made to prior retirees.

• In any year in which pre-tax profits of LTV Steel exceed $200 million, the 20 percent of such excess will be split, with at least 10 percent going in profit sharing to active employees and up to 10 percent going to reimburse retirees for the insurance contributions they made in the prior year.

If 1987 pre-tax profits exceed $235 million, active and retiree insurance contributions would reduce employee investments by about $5 million, or approximately 17 shares of stock per member. This is about 4.5 percent of the average employe's investment.

The effects in 1988 or 1989 are impossible to predict.

If profits are low, the effect would be similarly minimal. The maximum effect would be 70 shares per member in a year, when the profit-sharing pool averages $2,400 or more per active member.

Problems Faced at LTV

[Picture Omitted in Printing]

[Caption:] *Both active and retired steelworkers at LTV have big stakes in restoration of lost benefits with the proposed August 1987 labor agreement.*

Let's look at the problems the USWA Negotiating Committee confronted when it sat down to negotiate this proposed agreement with LTV Steel.

Major Problem I

Because the pension plans were terminated, active members faced these serious risks:

• No disability pensions for disabilities commencing after January 13, 1987.

• No pensions for the widows of active members who died after January 13, 1987.

• No pension credit for service after January 13, 1987.

• No immediate "30-and-Out" pensions for those who attained 30 years of service after January 13, 1987. (A Steelworker would have to wait until age 62.)

• No shutdown pensions for shutdowns after January 13, 1987.

Major Problem II

Termination of the pension plans has meant that 7,900 retirees with 70/80 and Rule-of-65 benefits lost supplements of $400 per month (in a few cases $300). Some 250 retirees lost part of their basic pension benefit because it exceeded the maximum amount guaranteed by PBGC for their particular age.

Major Problem III

Although pension plan termination imposed terrible hardships both on active employees and retirees, the judge had not allowed our lawsuit against LTV for compliance with the pension agreement to get off the ground. It took five months of Union effort just to get a partial hearing. We had to recognize that even if the Union ultimately won the pension lawsuit, it might turn out to be a hollow victory should the full collective bargaining agreement, including the pension and insurance agreements, all be rejected later in the bankruptcy process.

Major Problem IV

The future worsening of business conditions could push the company to seek rejection of our collective bargaining agreements and the right to impose stiff wage and benefit cuts that we have rejected in these negotiations. What's more, the legal climate in the New York bankruptcy courts is extremely hostile and labor contract rejection is more likely to succeed there than it might elsewhere. Accordingly one of our key goals was to safeguard against future attempts by LTV to reject the collective bargaining agreement and seek deeper concessions.

[Picture Omitted in Printing]

[Caption:] *USWA President Lynn Williams led a rally on the steps of the nation's Capitol April 1 to protest the impact on LTV steelworkers of corporate bankruptcy.*

The USWA Negotiating Committee concluded that consideration of these major problems dictated two strategic imperatives.

First, we had to negotiate a *full* new agreement covering pensions, insurance, wages and all other working conditions.

Second, we had to have an immediate rather than a postponed solution to our problems.

In the case of pensions, for example, we could not wait years for an uncertain court decision while active members and retirees suffered the pains inflicted by plan termination.

The fact that LTV is curently earning a profit (because of lower raw materials and interest costs, as well as higher prices) played into the USWA Negotiating Committee's bargaining strategy. Our chances were better now, than they would be if we were to postpone negotiations until LTV decided to force us into a contract rejection fight in the bankruptcy court.

The timing and economic circumstances would then be much more favorable to the company.

The USWA was mindful of the Union's Wheeling-Pittsburgh experience, where on contract rejection, our members were forced into the streets for 98 days to hold the total cost of concessions at $3.00 rather than $6.00.

As a solution, the USWA committee insisted on, and won an explicit commitment by LTV not to seek further contract changes for the entire duration of the bankruptcy.

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington,
D.C. 20006-1806

Sep. 18, 1987

MEMORANDUM

TO: William DeHarde, Director
Insurance Operations Department

Gary Ford, General Counsel
Office of the General Counsel

FROM: IOD/OGC SEPPAA Trusteeship Working Group

SUBJECT: Recommendation to Restore the Pension Plans of the LTV Steel Corporation

The revised minutes of the IOD/OGC SEPPAA Trusteeship Working Group meetings of August 6, 1987 and August 10, 1987 are attached.

Attachment

cc: IOD/OGC SEPPAA Trusteeship Working Group

[The attachment follows.]

IOD/OGC SEPPAA TRUSTEESHIP WORKING GROUP MINUTES OF THURSDAY, AUGUST 6, 1987

Attendees:

Angie Arnett, OGC	Robert Klein, CPD
Mark Blank, OGC	Al Rettig, ASD
Ray Collins, IOSD	Marvin Rosenblum, CPD
Valerie Dinkins, OGC	Alta Underwood, CPD
Robert Joy, IOSD	

The meeting of the IOD/OGC SEPPAA Trusteeship Working Group was commenced at 10:00 A.M. to consider the restoration of the LTV Steel Company Pension Plans.

Additional Attendees:

Gary Ford, OGC	Lonie Hassell, OGC
Bill Beyer, OGC	Scott McCulloch, OGC
Carol Flowe, OGC	Eugene Weinzweig, CPD
Dave Gustafson, CPRD	Tom Bleakney, M&R
Dave Gill, CPD	Robert Dezube, M&R

Background

The PBGC has involuntarily terminated the following pension plans sponsored by the LTV Steel Company, Inc.:

a. Republic Retirement Plan (Republic Salaried Plan);

b. Jones & Laughlin Retirement Plan (J&L Salaried Plan);

c. Jones & Laughlin Pension Plan (J&L Hourly Plan); and

d. Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 (Republic Hourly Plan).

At its meeting of September 16, 1986, the IOD/OGC SEPPAA Trusteeship Working Group (Group) recommended that the Republic Salaried Plan be involuntarily terminated pursuant to the provision of section 4042 of ERISA that requires PBGC to institute proceedings to terminate a plan which does not have assets to pay benefits that are currently due. The date of termination was September 30, 1986.

At its meeting of January 5, 1987, the Group recommended that the J&L Salaried Plan, J&L Hourly Plan and the Republic Hourly Plan (Plans) be involuntarily terminated due to the Plans' failure to meet minimum funding standards and to avoid unreasonable deterioration of the Plans' financial condition. LTV had asserted that "because LTV is in reorganization under Chapter 11 of the Bankruptcy Code, LTV can not and will not make contributions to the Plans to eliminate the accumulated funding deficiencies . . . and is not likely to have the ability, to fund the Plans for future years." Additionally, financial analysis presented to the Group based on LTV's most optimistic projections indicated that LTV could not make the required contributions to meet the minimum funding standards. The date of termination of the Plans was January 13, 1987. (See minutes of IOD/OGC SEPPAA Trusteeship Working Group meetings of December 15, December 18, 1986 and January 5, 1987. These minutes include proprietary business information protected from disclosure by a Data Disclosure Agreement with LTV.)

Discussion

IOD requested that the Group make a recommendation on whether PBGC should restore the LTV Steel plans pursuant to section 4047 of ERISA.

Ray Collins set forth the agenda of the meeting:

1. Review the current facts;
2. Make a recommendation to the Director of IOD and the General Counsel concerning the restoration of the plans.

Subsequent to the termination of the Plans, LTV and the United Steelworkers of American (USWA) entered into a collective bargaining agreement which, among other things, establishes new employee benefit arrangements (follow-on plans). LTV will also establish follow-on plans for salaried employees. On July 16, 1987, the Bankruptcy Court approved the collective bargaining agreement and the new employee benefit arrangements for salaried employees. The follow-on plans, together with the guaranteed benefits paid by the PBGC, will provide substantially the same benefits as the terminated LTV Steel plans. PBGC opposed approval of the follow-on plans in bankruptcy court because they evade the asset allocation and employer liability rules and essentially continue the terminated plans by providing substantially the same benefits and by paying amounts in excess of PBGC's guarantee limitations. (See attached affidavits of Kathleen Utgoff and C. David Gustafson submitted with PBGC's opposition to LTV's application for bankruptcy court approval of the follow-on plans.) Consequently, the adoption of the follow-on plans is a violation of Title IV and an abuse of the termination insurance program.

The Group discussed the purposes of Title IV of ERISA, PBGC's duties and obligations under Title IV and SEPPAA's Declaration of Policy.

Ray Collins stated that it appears that LTV's financial situation has improved significantly since the Plans were discussed at the Group's earlier meetings. At that time, LTV stated that it could not and would not make contributions to the Plans, and financial analysis based on LTV's projections indicated that LTV would not be able to fund the Plans to meet the minimum funding standards. (See minutes of IOD/OGC SEPPAA Trusteeship Working Group meeting of December 18, 1986; attached letter from Frank Cummings to PBGC General Counsel dated December 16, 1986). Recently, LTV has agreed to make contributions to the follow-on plans. In addition,

information submitted by LTV to the general unsecured creditors committee indicates that LTV has substantially exceeded its business projections of operating income.

Robert Joy summarized the Group's previous meetings on the termination of the LTV Steel plans, providing an overview of the Group's actions and recommendations at each meeting.

OGC advised that section 4047 provides that PBGC may restore a terminated plan to the employer or plan administrator when it determines that restoration is appropriate and consistent with PBGC's duties under Title IV. The legislative history of section 4047 indicates that restoration is available to PBGC in circumstances it deems appropriate, including those where the circumstances which made termination appropriate have changed or where there has been an abuse of the termination insurance program. OGC advised that PBGC has discussed section 4047 in published opinion letters concerning attempts by companies to establish abusive follow-on plans.

CPRD provided an analysis of the LTV follow-on plans. Based on information LTV supplied in its application for Bankruptcy Court approval of the follow-on plans (copy attached), the follow-on plans, together with the guaranteed benefits paid by PBGC under the terminated LTV Steel plans, provide substantially the same benefits as the terminated plans for participants and retirees and restore amounts in excess of PBGC's guarantee limitations. On average, for retirees, benefits paid under the follow-on plans, plus benefits paid by the PBGC under the terminated plans, will equal over 95 per cent of the benefits payable under the plans if they had not terminated. LTV has estimated that in the first year the cost of the follow-on union plans will be $70.8 million. The estimated cost of the follow-on plans for salaried employees would be approximately 20 to 25 per cent of the cost of the follow-on plans for union employees. The actuaries stated that these estimates are based on incomplete information sup-

plied by LTV with respect to assumptions and underlying facts (e.g., participant data, planned shutdowns).

The actuaries provided estimates of what the minimum funding costs would be if the LTV Steel plans were restored with and without contribution waivers from IRS.

The meeting was recessed at 11:45 AM and resumed at 1:30 PM.

The Group reviewed the attached trial transcript of the July 16, 1987, Bankruptcy Court hearing on LTV's application for approval of the follow-on plans, including the statements of an officer of LTV Steel regarding future shutdowns of LTV Steel facilities.

The Group discussed the restoration of the Republic Salaried Plan. That plan was terminated under the provision of section 4042 which requires termination by PBGC. The Group was informed that the contribution required to meet the minimum funding standard is approximately equal to the total annual benefit payments from the Republic Salaried Plan. However, there is remaining exposure for lump-sum payments to active participants in an undetermined amount. Finally, PBGC expects to recover the entire amount of the plan asset insufficiency arising as a result of termination of the Republic Salaried Plan. The group decided to defer further discussion of the Republic Salaried Plan.

The meeting was adjourned until Monday, August 10, 1987, at 10:00 AM.

The meeting of the IOD/OGC SEPPAA Trusteeship Working Group concerning the restoration of the LTV Steel pension plans was resumed at 10:00 AM, August 10, 1987. The following members were present.

Angie Arnett, OGC	Valerie Dinkins, OGC
Al Rettig, ASD	Mark Blank, OGC
Robert Joy, IOSD	Marvin Rosenblum, CPD
Ray Collins, IOSD	Robert Klein, CPD
Alta Underwood, CPD	

Additional Attendees:

Bill Beyer, OGC	Scot McCulloch, OGC
Gene Kalwarski, M&R	Eugene Weinzweig, CPD
Robert Dezube, M&R	Ron Gebhardtsbauer, ASD

Representatives from M&R provided additional information concerning the costs of the follow-on plans and the terminated plans. LTV estimates the total annual cost of the hourly follow-on plans for the first year of operation will be $70.8 million. The projected total annual cost for the first year of the follow-up plan to the J & L Salaried Plan is approximately $10-$15 million. M&R advised that, based on a USWA newsletter, LTV is expected to make up in 1987 wage concessions made in 1986, in the amount of about $90 million, in contributions to a separate profit sharing and stock ownership program for the benefit of USWA employees.

The M&R actuaries revised the estimates of minimum funding contributions required upon restoration that they provided at the August 6, 1987, meeting. Contributions owed to the two hourly plans for the 1986 plan year are estimated to total $160 million and the estimated contribution owed to the J&L Salaried Plan is $25 million, resulting in a total of $185 million. If waivers were obtained for the 1984 and 1985 plan years, the total annual contribution in 1987 is estimated to be between $195 and $200 million for the two hourly plans and $30 to $35 million for the J&L Salaried Plan.

CPD presented a financial analysis of LTV based on information supplied to the general unsecured creditors committees. (See report of CPD. This report includes proprietary business information protected from dis-

closure by a Data Disclosure Agreement with LTV.) The analysis indicated that the LTV Corportaion and the members of its controlled group will generate more than enough cash in the immediate future to support the Plans if restored. The analysis also indicates that LTV Steel alone would be able to fund restored plans in the near future; however, PBGC does not have sufficient data to predict LTV Steel's long-term cash flow with any certainty.

A motion was made and seconded to recommend restoration of the Plans to the employer or plan administrator, and to recommend appropriate action in the bankruptcy proceedings to reflect the restoration of the plans. The motion was based on (a) LTV's establishment of abusive follow-on plans which, together with the PBGC's guarantee, provide substantially the same benefits as the terminated plans and restore amounts in excess of PBGC's guarantee limitations; (b) the improvement in LTV's financial condition; and (c) LTV's demonstrated willingness to fund employee retirement plans. The Group decided that under the circumstances presented in this case, restoration is necessary to avoid abuse of the pension termination insurance program. The vote in favor of the motion was unanimous.

The Group decided not to include the Republic Salaried Plan in its recommendation at this time because PBGC expects to recover 100 per cent of the plan asset insufficiency for that plan, and because of the uncertain impact of the plan's exposure for lump sum payments on its ability to meet annual benefit payments from required minimum funding contributions.

[The attachments referred to in these minutes are reprinted at JA 226 (Utgoff affidavit), JA 231 (Gustafson affidavit), JA 125 (Cummings letter), JA 150 (LTV application to bankruptcy court to approve follow-on plans) (excerpts only), and JA 238 (July 16, 1987 hearing transcript) (excerpts only).]

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Aug. 12, 1987

To: William DeHarde, Director
Insurance Operations Department

Gary Ford, General Counsel
Office of the General Counsel

/s/ Robert Joy for

From: IOD/OGC SEPPAA Trusteeship Working Group

Subject: Recommendation to Restore the Pension Plans of the LTV Steel Corporation

This memorandum is to inform you that the IOD/OGC SEPPAA Trusteeship Working Group unanimously recommends restoration of the following plans to the employer or plan administrator:

a. Jones & Laughlin Retirement Plan (J&L Salaried Plan);

b. Jones & Laughlin Pension Plan (J&L Hourly Plan); and

b. Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 (Republic Hourly Plan).

The recommendation is based on:

a. LTV's establishment of abusive follow-on plans which, together with the PBGC's guarantee, provide substantially the same benefits as the terminated plans and restore amounts in excess of PBGC's guarantee limitations;

b. the improvement in LTV's financial and condition; and

c. LTV's demonstrated willingness to fund employee retirement plans.

Under the circumstances presented in this case, restoration is necessary to avoid abuse of the pension termination insurance program.

The group did not decide to include the Republic Retirement Plan (Republic Salaried Plan) at this time since PBGC expects to recover 100 percent of the plan asset insufficiency for this plan.

The minutes of the IOD/OGC SEPPAA Trusteeship Working Group's meeting of Thursday, August 6, 1987, and continued on Monday, August 10, 1987, are attached for your review.

Attachment

cc: IOD/OGC SEPPAA Trusteeship Working Group

[The attachment follows.]

IOD/OGC SEPPAA TRUSTEESHIP WORKING GROUP MINUTES OF THURSDAY, AUGUST 6, 1987

Attendees:

Angie Arnett, OGC	Robert Klein, CPD
Mark Blank, OGC	Al Rettig, ASD
Ray Collins, IOSD	Marvin Rosenblum, CPD
Valerie Dinkins, OGC	Alta Underwood, CPD
Robert Joy, IOSD	

The meeting of the IOD/OGC SEPPAA Trusteeship Working Group was commenced at 10:00 A.M. to consider the restoration of the LTV Steel Company Pension Plans.

Additional attendees:

Gary Ford, OGC	Lonie Hassel, OGC
Bill Beyer, OGC	Scot McCulloch, OGC
Carol Flowe, OGC	Eugene Weinzweig, CPD
Dave Gustafson, CPRD	Tom Bleakney, M&R
Dave Gill, CPD	Robert Dezube, M&R

Background

The PBGC has involuntarily terminated the following pension plans sponsored by the LTV Steel Company, Inc.:

a. Republic Retirement Plan (Republic Salaried Plan);

b. Jones & Laughlin Retirement Plan (J&L Salaried Plan);

c. Jones & Laughlin Pension Plan (J&H Hourly Plan); and

d. Pension Plan of Republic Steel Corporation Dated and Effective as of March 1, 1950 (Republic Hourly Plan).

At its meeting of September 16, 1986, the IOD/OGC SEPPAA Trusteeship Working Group (Group) recom-

mended that the Republic Salaried Plan be involuntarily terminated pursuant to the provision of section 4042 of ERISA that requires PBGC to institute proceedings to terminate a plan which does not have assets to pay benefits that are currently due. The date of termination was September 30, 1986.

At its meeting of January 5, 1987, the Group recommended that the J&L Salaried Plan, J&L Hourly Plan and the Republic Hourly Plan (Plans) be involuntarily terminated due to the Plans' failure to meet minimum funding standards and to avoid unreasonable deterioration of the Plans' financial condition. LTV had asserted that "because LTV is in reorganization under Chapter 11 of the Bankruptcy Code, LTV can not and will not make contributions to the Plans to eliminate the accumulated funding deficiencies . . . and is not likely to have the ability, to fund the Plans for future years." Additionally, financial analysis presented to the Group based on LTV's most optimistic projections indicated that LTV could not make the required contributions to meet the minimum funding standards. The date of termination of the Plans was January 13, 1987.

Discussion

IOD requested that the Group make a recommendation on whether PBGC should restore the LTV Steel plans pursuant to section 4047 of ERISA.

Ray Collins set forth the agenda of the meeting:

1. Review the current facts;
2. Make a recommendation to the Director of IOD and the General Counsel concerning the restoration of the plans.

Subsequent to the termination of the Plans, LTV and the United Steelworkers of America (USWA) entered into a collective bargaining agreement which, among other

things, establishes new employee benefit arrangements (follow-on plans). LTV will also establish follow-on plans for salaried employees. On July 16, 1987, the Bankruptcy Court approved the collective bargaining agreement and the new employee benefit arrangements for salaried employees. The follow-on plans, together with the guaranteed benefits paid by the PBGC, will provide substantially the same benefits as the terminated LTV Steel plans. PBGC opposed approval of the follow-on plans in bankruptcy court because they evade the asset allocation and employer liability rules and essentially continue the terminated plans by providing substantially the same benefits and by paying amounts in excess of PBGC's guarantee limitations. (See attached affidavits of Kathleen Utgoff and C. David Gustafson submitted with PBGC's opposition to LTV's application for bankruptcy court approval of the follow-on plans.) Consequently, the adoption of the follow-on plans is a violation of Title IV and an abuse of the termination insurance program.

The Group discussed the purposes of Title IV of ERISA, PBGC's duties and obligations under Title IV and SEPPAA's Declaration of Policy.

Ray Collins stated that it appears that LTV's financial situation has improved significantly since the Plans were discussed at the Group's earlier meetings. At that time, LTV stated that it could not and would not make contributions to the Plans, and financial analysis based on LTV's projections indicated that LTV would not be able to fund the Plans to meet the minimum funding standards. Recently, LTV had agreed to make contributions to the follow-on plans. In addition, information submitted by LTV to the general unsecured creditors committee indicates that LTV has substantially exceeded its business projections of operating income.

Robert Joy summarized the Group's previous meetings on the termination of the LTV Steel plans, providing an

overview of the Group's actions and recommendations at each meeting.

OGC advised that section 4047 provides that PBGC may restore a terminated plan to the employer or plan administrator when it determines that restoration is appropriate and consistent with PBGC's duties under Title IV. The legislative history of section 4047 indicates that restoration is available to PBGC in circumstances it deems appropriate, including those where the circumstances which made termination appropriate have changed or where there has been an abuse of the termination insurance program. OGC advised that PBGC has discussed section 4047 in published opinion letters concerning attempts by companies to establish abusive follow-on plans.

CPRD provided an analysis of the LTV follow-on plans. Based on information LTV supplied in its application for Bankruptcy Court approval of the follow-on plans (copy attached), the follow-on plans, together with the guaranteed benefits paid by PBGC under the terminated LTV Steel plans, provide substantially the same benefits as the terminated plans and restore amounts in excess of PBGC's guarantee limitations. On average, benefits paid under the follow-on plans, plus benefits paid by the PBGC under the terminated plans, will equal over 90 per cent of the benefits payable under the plans if they had not terminated. LTV has estimated the cost of the follow-on union plans to be $70.8 million annually. The estimated cost of the follow-on plans for salaried employees would be approximately 20 to 25 per cent of the cost of the follow-on plans for union employees. The actuaries stated that these estimates are based on incomplete information supplied by LTV with respect to assumptions and underlying facts (e.g. participant data, planned shutdowns). The actuaries provided estimates of what the minimum funding costs would be if the LTV Steel plans were restored with and without contribution waivers from IRS.

The meeting was recessed at 11:45 AM and resumed at 1:30 PM.

The Group reviewed the attached trial transcript of the July 16, 1987, Bankruptcy Court hearing on LTV's application for approval of the follow-on plans, including the statements of an officer of LTV Steel regarding future shutdowns of LTV Steel facilities.

The Group discussed the restoration of the Republic Salaried Plan. That plan was terminated under the provision of section 4042 which requires termination by PBGC. The Group was informed that the contribution required to meet the minimum funding standard is less than the total annual benefit payments from the Republic Salaried Plan. PBGC expects to recover the entire amount of the plan assets insufficiency arising as a result of terminaton of the Republic Salaried Plan. The group decided to defer further discussion of the Republic Salaried Plan.

The meeting was adjourned until Monday, August 10, 1987, at 10:00 AM.

The meeting of the IOD/OGC SEPPAA Trusteeship Working Group concerning the restoration of the LTV Steel pension plans was resumed at 10:00 AM, August 10, 1987. The following members were present.

Angie Arnett, OGC	Valeria Dinkins, OGC
Al Rettig, ASD	Mark Blank, OGC
Robert Joy, IOSD	Marvin Rosenblum, CPD
Ray Collins, IOSD	Robert Klein, CPD
Alta Underwood, CPD	

Additional Attendees:

Bill Beyer, OGC	Scot McCulloch, OGC
Gene Kalwarski, M&R	Eugene Weinzweig, CPD
Robert Dezube, M&R	Ron Gebhardtsbauer, ASD

Representatives from M&R provided additional information concerning the costs of the follow-on plans and the terminated plans. LTV estimates the total annual cost of the follow-on plans for the first few years of operation to be $90.8 million. M&R advised that, based on a USWA newsletter, LTV is projected to contribute an additional $90 million to separate profit sharing plan for the benefit of USWA employees.

The M&R actuaries revised the estimates of minimum funding contributions required upon restoration that they provided at the August 6, 1987, meeting. Contributions owed to the two hourly plans for the 1986 plan year are estimated to total $160 million and the estimated contribution owed to the J&L Salaried Plan is $25 million, resulting in a total of $185 million. If waivers were obtained for the 1984 and 1985 plan years, the total annual contribution in 1987 is estimated to be between $195 and $200 million for the two hourly plans and $30 and $35 million for the J&L Salaried Plan.

CPD presented a financial analysis of LTV based on information supplied to the general unsecured creditors committee. The analysis indicated that The LTV Corporation and the members of its controlled group will generate more than enough cash in the immediate future to support the Plans if restored. The analysis also indicates that LTV Steel alone would be able to fund restored plans in the near future; however, PBGC does not have sufficient data to predict LTV Steel's future cash flow with any certainty.

A motion was made and seconded to recommend restoration of the Plans to the employer or plan administrator. The motion was based on (a) LTV's establishment of abusive follow-on plans which, together with the PBGC's guarantee, provide substantially the same benefits as the terminated plans and restore amounts in excess of PBGC's guarantee limitations; (b) the improvement in LTV's

financial condition; and (c) LTV's demonstrated willingness to fund employee retirement plans. The Group decided that under the circumstances presented in this case, restoration is necessary to avoid abuse of the pension termination insurance program. The vote in favor of the motion was unanimous.

The Group decided not to include the Republic Salaried Plan in its recommendation at this time since PBGC expects to recover 100 per cent of the plan asset insufficiency for that plan.

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Aug. 13, 1987

EXECUTIVE SUMMARY

To: Kathleen P. Utgoff
Executive Director

FROM: /s/ Bill DeHarde
William DeHarde, Director
Insurance Operations Department

/s/ Gary Ford
Gary M. Ford
General Counsel

SUBJECT: SEPPAA Working Group recommendation to restore terminated LTV pension plans.

ACTION REQUIRED: Approval of the recommendation

BACKGROUND: Attached is a recommendation of the SEPPAA Working Group to restore three terminated pension plans sponsored by the LTV Steel Company, Inc. Also attached is a copy of the record on which their recommendation is based.

The Group met on August 6th and 10th and reviewed the facts surrounding their initial recommendation to terminate four plans sponsored by LTV: Republic Retirement Plan (Republic Salaried Plan); Jones & Laughlin Retirement Plan (J&L Salaried Plan); Jones & Laughlin Pension Plan (J&L Hourly Plan); and, Pension Plan of Republic Steel Corporation (Republic Hourly Plan).

After a thorough review of the facts leading to and following the termination of the LTV plans, including the abuse of the Title IV insurance program resulting from LTV's establishment of new employee benefit arrange-

ments (follow-on plans), which together with the PBGC's guarantee provide substantially the same benefits as the terminated LTV pension plans and restore amounts in excess of PBGC's guarantee limitation, the improvement in LTV's financial condition, and LTV's demonstrated willingness to fund employee retirement plans, the Group unanimously recommended restoration of the two hourly plans and the J&L salaried plan to the employer or plan administrator pursuant to section 4047 of ERISA.

The Group decided not to recommend restoration of the Republic salaried plan at this time because facts currently available indicate that PBGC will recover 100 percent of the plan asset insufficiency for that plan.

We endorse the Group's recommendation and request your concurrence.

Attachments

[The attachments are reprinted at JA 319, 311.]

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Office of the Executive Director

Aug. 31, 1987

Mr. Raymond A. Hay
Chairman of the Board and
Chief Executive Officer
The LTV Corporation
2001 Ross Avenue
Dallas, Texas 75265-5003

Dear Ray:

I read with considerable alarm certain statements attributed to Mr. Julian Scheer, LTV's Senior Vice President of Corporate Affairs in The Washington Post, Saturday, August 29, 1987.

As you should know, one of several options under review at the Agency is "Restoration" of the plans pursuant to Section 4047 of the Employee Retirement Income Security Act. To suggest that enforcement of the law (if we select this option) is, "retaliation of the worst kind. Retaliation against the most innocent and helpless players: the retirees themselves," as stated by Mr. Scheer is blatantly irresponsible.

Restoration of the plans would provide 100% of the benefits LTV promised but failed to fund under the "old" plans. This is obviously greater than the 92.25% maximum you are paying under your "new" plans. Therefore, retirees would *benefit* from a restoration.

Since this is so clear, I can only conclude that Mr. Scheer was attempting to terrorize retirees into opposing a lawful action which would benefit them.

Fortunately the next paragraph correctly quoted a source who indicated that, "There isn't a scenario under which people won't get their money." "There is *no danger* of benefits ceasing." (emphasis added). This is true.

Ray, the retirees were held hostage for too long. Although it was within the power of LTV and the United Steelworkers of America to reach agreement on "hardship" payments throughout the bargaining period, you only provided them once. To now make a further threat of hardship is unconscionable. And, it is simply untrue.

While we will no doubt continue to disagree on many issues, I'm sure that we do agree that the workers have paid a dear enough price. They should not be punished further for LTV's inability to fund its pension promises.

Sincerely,

/s/ Royal
ROYAL S. DELLINGER
Principal Deputy Executive Director
and Chief Negotiator

RSD:jr

Enclosure

cc: Mr. Julian Scheer
Mr. Lynn Williams

[The enclosure follows.]

D8 Saturday, August 29, 1987 The Washington Post

LTV MAY FACE LIABILITY ON PENSIONS

Plan Is Among Options Weighed by PBGC for $2.3 Billion in Unfunded Benefits

By Cindy Skrzycki
Washington Post Staff Writer

The Pension Benefit Guaranty Corp., which insures the pension benefits of some 40 million workers may force the bankrupt LTV Corp. to accept responsibility for $2.3 billion in unfunded pension liabilities.

The move, one of several options that sources said the PBGC is considering on LTV, would be unprecedented in the agency's 13-year history. Although the PBGC has had similar disputes with other companies, it has never resorted to returning to an employer responsibility for pension benefits that were turned over to the government.

Sources said the agency, which terminated four of LTV's pension plans after the company filed for bankruptcy last July, has not made a decision on how to settle its differences with LTV. LTV is the nation's second-largest steel company.

The agency maintains that new pension arrangements agreed to by the company and the United Steel Workers union violate the Employe Retirement Income Security Act (ERISA) because they would restore most supplemental benefits to early retirees and provide a plan for active workers that essentially adds up to the plans that were abandoned by the company.

The bankruptcy court handing the LTV case approved the new pension arrangements over the objections of the agency.

"Such arrangements, regardless of what they are called, effectively continue the terminated plan, but the PBGC

would be manipulated into picking up much of the cost. This is an abuse of the insurance system and can't be ignored," the agency said in a position paper on the LTV case.

The agency also believes it has authority under ERISA to "restore" a plan it has terminated to its former status.

Legal experts said the effect of turning back the plan to the company would be unclear because of the effect of bankruptcy laws on a company's pension obligations.

However, the agreement LTV signed with the steelworkers provides that a PBGC turnback of the plans to the company would nullify the current agreement.

"There is no case where this has ever occurred. You are in the twilight zone," said one pension expert.

LTV said that if the agency followed that course it would be "retaliation of the worst kind. Retaliation against the most innocent and helpless players: the retirees themselves," said Julian Scheer, senior vice president of corporate affairs.

Scheer added that the company would "vigorously oppose" such an action by the agency. "The PBGC took the plans because they lacked the necessary long-term resources to cover funding requirements and LTV lacked long-term resources to fund them. That has not changed," said Scheer.

Whatever course the government takes, it is unlikely that retirees would be harmed since there are $1.5 billion in assets in the plans. "There isn't a scenario under which people won't get their money," a source said. "There is no danger of benefits ceasing."

The agency, which is fighting approval granted by the bankruptcy court of LTV's new collective bargaining agreement and pension plan, could also simply reduce the

monthly benefits it is paying to early retirees by the amount they are receiving under the new contract.

It also favors a different kind of trust arrangement or separate plan to assure the pension rights of current workers.

Overall, the agency, which already has a $4 billion deficit, fears that other companies will be encouraged to follow LTV's lead in shedding old, more expensive pension obligations for new programs that are riskier for employes and not insured by the government. As LTV's largest creditor, the PBGC also is concerned that payments under the new contract will lessen its claims on the company.

"The insurance system shouldn't be used to shore up corporate profits or enhance a company's competitive position," said PBGC Executive Director Kathleen Utgoff. "It's for retirees."

The agency is responsible for the pension benefits of 108,000 LTV workers, 85 percent of whom are receiving full benefits. The new pension arrangements between LTV and the steelworkers union restores about 92 percent of the pension supplements lost by some 8,000 early retirees.

LTV—which has since turned the corner to profitability after filing for bankruptcy with $6.5 billion in liabilities, and which may emerge as one of the nation's stronger steel companies—will pay about $90 million for all of its new plans, compared with its former $225 million average annual cost for its defined benefit plans.

About 80 percent of the agency's claims now relate to steel company bankruptcies, the largest of those being LTV and Wheeling-Pittsburgh Steel Corp.

Although large steel producers have been lobbying the government for help in futher restructuring the industry

and eliminating excess steelmaking capacity, it opposes allowing companies to gain a competitive advantage through parking pension liabilities with the PBGC. Companies such as Inland Steel and the steel subsidy of USX Corp. have fully funded plans.

[LTV Logo]

The LTV Corporation

Chairman of the Board
and Chief Executive Officer

September 10, 1987

Mr. Royal S. Dellinger
Deputy Executive Director
and Chief Negotiator
Pension Benefit Guaranty Corporation
2020 K Street, N.W.
Washington, D.C. 20006

Dear Royal:

I would like to set the record straight and correct the misleading and inaccurate statements in your letter of August 31, and particularly I would take this opportunity to reaffirm on behalf of LTV the assertions made in the *Washington Post* article.

The PBGC has repeatedly stated that the options it has under review are: (1) "restoration" of the plans and (2) a reduction in the amount of checks being dispersed to retirees by the amount of the "make-up" plan. Yet nowhere in your letter is the letter option mentioned. As you well know, retiree groups are aware of these statements. If the PBGC is no longer considering this option, the Agency should say so. This would do far more to give the retirees peace of mind than the self-serving statements contained in the last two paragraphs of your letter.

Your statements with respect to restoration of the plans are incomplete and misleading. The PBGC terminated the plans in question because, to use the agency's own statements, "the minimum funding standards had not

and would not be met and . . . termination was necessary to avoid any unreasonable deterioration of the financial condition of the plans or any unreasonable increase in the liability of the PBGC's insurance fund." Absolutely nothing has occurred to alter this conclusion. If the plans were to be restored, the ultimate reorganization of the company would be jeopardized and the interests of retirees, employees, creditors and shareholders would be adversely affected. Further, as you know, we do not believe that the PBGC has the legal authority to take such a drastic and unreasonable step and we will legally resist such an attempt to the utmost of our resources. The uncertainty created by the litigation alone will create stress and upset among not only the current retirees but all active workers and creditors.

Royal, the issues you have raised, if not resolved by a plan of reorganization, will ultimately be determined by the courts. In the meantime we request once again that you put on your creditor's hat and come to the bargaining table to negotiate a resolution of your claims. By continuing to refuse to do so you are unreasonably delaying the day when a plan will be confirmed, to the detriment not only of your premium payers but also to the detriment of all the company's creditors, for you well know that as the largest creditor there can be no plan of reorganization without your participation.

Sincerely,

/s/ Ray
RAYMOND A. HAY

cc: Julian Scheer
Lynn Williams

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006

Office of the Executive Director

September 14, 1987

Mr. Raymond A. Hay
Chairman of the Board and
Chief Executive Officer
The LTV Corporation
2001 Ross Avenue
Dallas, Texas 75265-5003

Dear Ray:

You obviously misunderstood my letter of August 31. I wrote to bring to your attention, an irresponsible statement by Julian. My letter did not purport to describe the options available to the Agency as suggested by your letter. For the record, there are *four* (4) options which the Agency has publicly acknowledged are under review. They are as follows:

(1) restoration under Section 4047 of ERISA;

(2) equitable adjustment as discussed in item two (2) of your letter;

(3) continued "follow-on" plan litigation presently pending in court; and,

(4) to do nothing.

The article in question specifically described "*one of several options*" (emphasis added). It, like my letter to you, did not attempt to articulate the alternatives available other than restoration.

Each option is still under review. Therefore, it would be inappropriate to dismiss any one of them at this time.

Ray, you also dismiss as "self-serving" the last two paragraphs of my letter. This seems odd. It is an indisputable fact that LTV failed to meet its obligations to fund its pension promises. This has created a hardship on its retirees and active workers that you now expect PBGC to remedy through the use of your competitors and other responsible plan sponsors premiums, to fund your $2.3 billion deficiency. You disregard the risk that this bailout places on the pension insurance system. And, you incorrectly blame PBGC for the hardships imposed on your present and former employees.

Finally Ray, I remind you that the "Agency's own statements" to which you refer were in response to LTV's refusal to continue funding its promises. I refer specifically to Frank Cummings letter of December 16, 1986 in which he stated on behalf of LTV, that the company "cannot and will not make contributions to the Plans."

Sincerely,

/s/ Royal
ROYAL S. DELLINGER
Principal Deputy Executive
Director and Chief
Negotiator

RSD:jr

Enclosure: "PBGC wants out of LTV pension role," *The Evening Independent*, (Saturday, August 29, 1987).

cc: Mr. Julian Scheer
Mr. Lynn Williams

[The enclosure follows.]

THE EVENING INDEPENDENT SATURDAY, AUGUST 29, 1987

PBGC WANTS OUT OF LTV PENSION ROLE

By ULYSSES TORASSA
inde Washington Bureau

WASHINGTON—The head of the federal agency that took $2.3 billion in pension funds off the hands of LTV Steel is sending out strong signals the plans may be returned to the troubled steelmaker.

Although no final decision has been made, Kathleen Utgoff, executive director of the Pension Benefit Guaranty Corp., Friday indicated that move heads the list of options being studied by the agency.

During an interview in her office, Utgoff discussed why returning the plant to LTV is attractive to the PBGC. She also cited the disadvantages of three other options the agency is weighing.

The PBGC chief said she wants to make a final decision "as soon as possible" but would offer no specifics on when an announcement could be expected.

While acknowledging LTV would likely take court action to block such a move, she said the plan to return pension control to the steelmaker is attractive to the PBGC for several reasons:

• Retirees would continue to receive the same benefits they now are getting, as well as the almost complete restoration of the $400 a month supplemental benefits to early retirees included in a new LTV-United Steel Workers agreement.

• Present workers, whose new pension plan under the labor contract is not insured by the PBGC, would find their retirement fund once again fully insured.

• The action would put a stop to what Utgoff called "corporate welfare" for LTV by preventing the firm from using the PBGC as a way of shedding expensive pension liabilities.

"A small federal pension insurance agency shouldn't be involved in restructuring a major industry," Utgoff said during Friday's interview. "We're not an industrial policy agency. We should be a safety net for workers and what we've become is a redistributor of corporate wealth and a provider of corporate subsidies . . . corporate welfare."

LTV creditors have complained bitterly the steelmaker has gained an unfair advantage by "dumping" its pension liabilities. The PBGC is concerned LTV's example will encourage other companies with underfunded pensions to slough them off on the agency, which already is reeling from a $4 billion deficit brought on largely by the steel industry.

The PBGC is worried that if LTV is allowed to shed its obligations and still keep labor peace by offering the same benefits to present workers, other companies will follow suit, leaving the deficit-ridden agency holding the bag.

Asked about the possibility the PBGC might return the plans, David Carroll, an LTV Steel spokesman in Cleveland, said, "We feel that there is no legal or moral basis for them (the PBGC) to take that kind of action. We would vigorously oppose any such move and we would expect to be successful."

Carroll said the PBGC, which took the lead in having the plans terminated, did so because LTV is trying to reorganize under bankruptcy laws and was no longer able to contribute to the funds. He said despite two subsequent profitable quarters, the steelmaker remains in financial trouble.

If the PBGC were to return the pension funds, he added, "It would definitely be a negative factor in our ability to reorganize within the time frames we're seeking."

A spokesman for the United Steel Workers of America in Pittsburgh said the union is not yet prepared to take a position on the possible return of the pension funds.

Besides returning the funds, another option the PBGC has is cutting benefits to retirees by the same amount they are receiving from LTV under the new contract. Employees who retired early were promised an average of $400 per month to make up for the lower regular pension checks, but such supplements were not insured by the PBGC.

Under that option, the agency also would cut future retirees' benefits by amounts provided by the new pension plan included in the contract, Utgoff said.

She said that option is unattractive, however, because it most hurts retirees, the people her agency is supposed to be protecting.

Two other options are to do nothing, or to wait out the course of litigation the agency has started to challenge the new contract. Utgoff said she is concerned the "protracted" nature of the legal proceedings leaves LTV retirees hanging in the balance and uncertain, something she wants to avoid.

Besides, she said, "what do you do about precedents for other companies in the interim?" What LTV has done with its new labor contract "makes pension plan termination virtually irresistible," she added.

MEMORANDUM

To: SEPPAA Committee
Fr: Bob Klein /s/ RK 9/15/87
Re: LTV Restoration—Summary financial analysis

We are limiting our analysis to a review of management's numbers; we are not attempting to project economic or other factors that will affect LTV in the future. The analysis is summarized below. It has been concurred in by Mike Lederman of Goldman, Sachs.

A. *Annual cash flow*

1. Cost of 2 union plans is $160M if no waivers granted, or $195M if 1984-85 waivers granted. Adding 1986 waiver probably boosts future cost (in 1988 and thereafter) to $215M. Adding 20% for salaried plans results in $260M total cost prospectively with 1984-86 waivers granted.

2. Cash cost of supplemental benefits estimated by company at $70M for hourly employees. Using company assumptions, comparable cost for supplemental benefits would be $20M. We believe these estimates are low, but do not have a defined range for our estimate of the costs.

3. The incremental effect of full restoration based on company cost estimates is therefore $170M. We believe that the effect will be less, not only because of our concerns over the actuarial methods used to develop the company estimates but also because of the effects of a profit-sharing plan and the cost of shutdowns, which would be shifted from the company to the pension plans if the plans are restored.

4. The new collective bargaining agreement has been estimated by management to include savings from job reductions of $50M. These savings should be realized whether or not the pension benefits paid to the workforce are through restoration or through the new arrange-

ments. The net effect on the company after the job reductions is therefore somewhat less than $120M. This assumes that in the event of restoration, the collective bargaining agreement is voided by one of the parties, but that further bargaining preserves the job reductions.

5. The 1987-88 LTV Operating Plan estimated net income from LTV Steel of $239M and $260M for 1987 and 1988, and net cash flow of $270M and $265M in those years. Net income from LTV Aerospace & Defense was estimated to be $159M and $161M for 1987 and 1988, and net cash flow was estimated to be $6M and $80M in those years. The contribution of LTV Energy Products was estimated to be nominal. Hourly current service pension cost of $21 million was accrued in developing the above estimates, as was a profit-sharing payment of $31 million in 1988.

6. According to the July 29 report to the Creditors' Committee, actual operating income vs. the plan for January-May 1987 was as follows: ($Mil.)

	Actual	Plan	Variance	Annual Plan
LTV Steel	163.7	118.8	44.9	267.9
LTV A&D	62.8	65.2	(2.4)	159.8
LTV Energy Products	1.6	(1.4)	3.0	(1.6)
Total	228.1	182.6	45.5	426.1
Annualized total	532.3	426.1	106.2	

The Plan recognized cash cost for pensions of $47M (34M hourly, 13M salaried). It is not evident at what rate pension costs have been accrued in development of the actual operating results. If the accrual rate is similar to the cash cost, the annualized operating income for 1987 without the pension accrual would be $580M. These results do not include the projected $50M annual benefits from job reductions. If the job reduction benefits are considered, the annualized 1987 results would be $630M on a pro forma basis without pensions.

7. An average of $45M was provided for in the 1987-88 plan for interest expense. Interest is being accrued

on those debts that are believed to be secured. After allowance for interest expense, annualized net income for 1987 on a pro forma basis without pensions would be $585M.

8. We understand that a profit-sharing formula has been agreed to that would pay 10% of the first $100M of profits and 20% of the excess with an offset for retention of retiree health benefits. I understand that payments under the profit sharing plan are expected to be either in cash or in stock that would have a put option against LTV in the event that there were profits in subsequent years following the year that the stock was issued.

Based on LTV's own cash flow projections, it appears that the debtor will generate more than enough cash during the immediate future (1987 and 1988) to support the reinstatement of the pension obligation. Thus a plausible case can be made from LTV's own numbers that the company has the wherewithal to support the ongoing pension plans.

B. *Claims resolution and balance sheet considerations*

Total prepetition claims are roughly $6.2B, of which LTV Steel's portion is roughly $4.5B. The claims were $6.7B in December 1986, broken down roughly as follows: ($Mil.)

Bank notes	644
L-T debt, fully secured	250
L-T debt, partially secured	411
L-T debt, unsecured	1,581
Accounts payable	474
Pensions	2,245
Reserve for exec. contracts	600
Other	747

There was $432M of cash on hand in May*. Based on Goldman, Sachs' preliminary net worth estimates, we be-

lieve that a priority claim for $1.2B for employer liability could be sustained. Additional priority claims of about $151M for DUEC exist if the plans are terminated ($211M filed less $60M needed to amortize prior waivers). In addition, non-priority claims for 75% of PAI net of the priority amount ($750M less offsets for DUEC collectibility) exist for employer liability. These claims would substantially dilute the other unsecured creditors. If the plans are restored, all of the employer liability claims would be removed, and most of the priority DUEC would be removed as well if minimum funding waivers were granted for 1984-86.

An analysis of the effect of a withdrawal of employer liability claims on the other creditors cannot be done without knowing how the Aerospace & Defense company is to be treated. Nonetheless, the general effect is that if the plans are restored and the claims withdrawn, the other creditors would wind up with a larger share of a less profitable company than if the plans are terminated.

* Cash on hand is believed to be in excess of $680M at the end of July 1987 after servicing bank debt and paying $200M principal on secured letters of credit.

To: William DeHarde, Director
Insurance Operations Department

Gary Ford, General Counsel
Office of the General Counsel

From: Bob Klein /s/ RK 9/16/87

Re: LTV Restoration—Revised summary financial analysis

Attached is the summary financial analysis that was the basis for my presentation to the IOD/OGC SEPPAA Trusteeship Working Group on August 10, 1987. The summary has been revised as a result of comments made by members of the Working Group during the meeting and by representatives of OGC since that time. The conclusions given to the Working Group at that meeting and reflected, in part, in the summary have not changed as a result of any of the revisions.

Attachment

[The attachment is reprinted at JA 343.]

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Office of the Executive Director

September 18, 1987

Mr. Raymond A. Hay
Chairman of the Board and
Chief Executive Officer
The LTV Corporation
2001 Ross Avenue
Dallas, Texas 75265-5003

Dear Ray:

Royal Dellinger has told me of his telephone conversation with you, in which you asked whether it was true that a decision had been made to restore the terminated pension plans. As Royal told you, we are still considering the four options described in his recent correspondence to you, and I have not yet made a decision.

As you know, we have been discussing this matter with you over the past several months. After the press reported in June that we might restore the plans, we met with you on July 9, 10 and 13, and both LTV and USWA officials were given an opportunity to present us with any relevant information. The discussion continued after that time in a series of letters between you and Royal, and Jim Powers and Royal.

I understand that you suggested to Royal that you may now wish to have an additional meeting. We would, of course, be happy to consider any additional information you might wish to supply. Accordingly, while Royal's schedule is crowded next week, he would be happy to come to Dallas this evening to meet with you

this weekend and review any new information you wish to convey. Please call me as soon as possible if you believe that this would be useful.

Sincerely,

/s/ Kathy
KATHLEEN P. UTGOFF
Executive Director

KPU:jr

[Page from undated draft of the Executive Summary reprinted at JA 352, inadvertently included in assembly of the Administrative Record.]

—2—

3. Form 10-K for LTV Aerospace and Defense Company for the fiscal year ended December 31, 1986.

4. Form 10-Q for The LTV Corporation for the quarter ended March 31, 1987.

5. Form 10-Q for LTV Steel Company, Inc. for the quarter ended March 31, 1987.

6. Form 10-Q for LTV Aerospace and Defense Company for the quarter ended March 31, 1987.

7. Form 10-Q for The LTV Corporation for the quarter ended June 30, 1987.

8. Form 10-Q for LTV Steel Company, Inc. for the quarter ended June 30, 1987.

9. Form 10-Q for LTV Aerospace and Defense Company for the quarter ended June 30, 1987.

10. Outline summary produced by LTV of follow-on pension arrangements for salaried employees.

11. Transcript of hearing in *USWA* v. *LTV Steel Company, Inc.*, Adversary Proceeding No. 87-5016A, held June 23, 1987, pp. 96-155 (Testimony of Thomas Levy).

12. Data sheets setting forth an analysis of plan asset solvency under different scenarios following restoration of the LTV Steel pension plans.

13. Minutes of the Board of Directors meeting held on September 17, 1987.

Finally, we have been advised that at the Creditors' Committee meeting held during the week ended September 12, 1987, representatives of LTV announced that the company would reveal its latest business plan early in October. During their deliberations on this matter, the mem-

bers of the working group indicated that they would have recommended restoration in response to LTV's abuse of the pension insurance system, whether or not the company's financial circumstances had changed. Moreover, the most current financial reports do not reflect a change in LTV's improved financial condition. Thus, we are confident that the substance of this proposed business plan would not alter the Group's recommendation. Accordingly, we reiterate our previous endorsement of the Group's recommendation and request your concurrence.

Attachments

[PBGC Logo] Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington,
D.C. 20006-1806

Sep. 18, 1987

EXECUTIVE SUMMARY

TO: Kathleen P. Utgoff
Executive Director

THROUGH: Royal S. Dellinger
Deputy Executive Director

Joseph A. Vasquez, Jr.
Deputy Executive Director

FROM: William DeHarde, Director
Insurance Operations Department

Gary M. Ford
General Counsel

SUBJECT: SEPPAA Working Group recommendation to restore terminated LTV pension plans.

ACTION REQUIRED: Approval of the recommendation

BACKGROUND: By memorandum dated August 13, 1987, we forwarded for your consideration a copy of the minutes of the SEPPAA Working Group setting forth its recommendation to restore three terminated pension plans sponsored by LTV Steel Company, Inc. We understand that you have not yet acted on the Group's recommendation.

After August 13, the minutes that we forwarded were revised to reflect comments of individuals who were on vacation when the original minutes were prepared. A copy of the revised minutes is attached. The Group's recommendation has not changed.

We are also adding information to the record before you (all of which you have reviewed previously). As you know, at the request of a number of members of Con-

gress following a press report indicating that PBGC was considering restoration of the LTV plans, you and other PBGC officials met with LTV and USWA officials on July 9 (together with members of Congress), 10 and 13 regarding LTV's follow-on plans, possible plan restoration, and other issues. We have attached for your review correspondence leading to and following those meetings.

We have also attached the following information pertinent to your decision in this matter, which you have reviewed previously:

1. Form 10-K for The LTV Corporation for the fiscal year ended December 31, 1986.

2. Form 10-K for LTV Steel Company, Inc. for the fiscal year ended December 31, 1986.

3. Form 10-K for LTV Aerospace and Defense Company for the fiscal year ended December 31, 1986.

4. Form 10-Q for The LTV Corporation for the quarter ended March 31, 1987.

5. Form 10-Q for LTV Steel Company, Inc. for the quarter ended March 31, 1987.

6. Form 10-Q for LTV Aerospace and Defense Company for the quarter ended March 31, 1987.

7. Form 10-Q for The LTV Corporation for the quarter ended June 30, 1987.

8. Form 10-Q for LTV Steel Company, Inc. for the quarter ended June 30, 1987.

9. Form 10-Q for LTV Aerospace and Defense Company for the quarter ended June 30, 1987.

10. Outline summary produced by LTV of follow-on pension arrangements for salaried employees.

11. Transcript of hearing in *USWA v. LTV Steel Company, Inc.*, Adversary Proceeding No. 87-5016A,

held June 23, 1987, pp. 95-158 (Testimony of Thomas Levy).

12. A data sheet setting forth the assets, liabilities, and annual minimum funding contributions for each of the three LTV Steel pension plans for which restoration has been recommended.

Finally, we have been advised that at the Creditors' Committee meeting held during the week ended September 12, 1987, representatives of LTV announced that the company would reveal its latest business plan early in October. LTV's improved financial circumstances were not the primary basis for the recommendation that the plans be restored. Nevertheless, we note that the most current financial reports reflect continuing improvement in LTV's financial condition. Thus, we reiterate our previous endorsement of the Group's recommendation and request your concurrence.

We have attached a notice of restoration for your signature, should you concur in our recommendation.

Attachments

[Certain of the attachments referred to in this Executive Summary are reprinted at JA 311 (revised minutes), JA 147-49, 262-74, 330-42 (correspondence), JA 132-36, 143-46 (Forms 10-K and 10-Q) (excerpts from certain of these only), and JA 223 (salaried pension program information). The remaining attachments were omitted in printing.]

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington,
D.C. 20006-1806

MEMORANDUM

To: Kathleen P. Utgoff
Executive Director

From: Robert Klein /s/ RK 9/21/87
Financial Analyst

Subject: Summary Financial Analysis Clarification

This is in response to your request for an explanation of the source of the claim amounts in my memorandum to the SEPPAA Committee dated September 15, 1987. The total amount of "pre-petition" pension claims on page 3 of the memo is from the 1987-1988 Operating Plan of The LTV Corporation. The reference on page 4 to additional priority claims "if the plans are terminated" should say "if the plans remain terminated." The amounts and priorities of plan asset insufficiency and DUEC claims on page 4 of the memo are preliminary estimates provided by PBGC actuaries. I understand the actuaries' estimates are based on information provided by LTV.

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Sep. 21, 1987

MEMORANDUM

To: Kathleen P. Utgoff
Executive Director

FROM: Gary M. Ford
General Counsel

SUBJECT: Restoration Decision: LTV Pension Plans.

The documents listed below, which you have previously reviewed, are attached for inclusion in the administrative record on the issue of whether to restore the three LTV Steel Company, Inc. ("LTV Steel") pension plans terminated effective January 13, 1987.

1. January 12, 1987 Applications of PBGC for Decree of Pension Plan Termination for three LTV Steel plans, Memoranda of Points and Authorities in support thereof, Affidavits and Exhibits.
2. January 12, 1987 Consent Orders terminating the three LTV Steel plans.
3. July 8, 1987 Notice of Motion and Application for Authority to Make Pre-Petition Contributions in Accordance with the Employee Investment Program.
4. July 30, 1987 Order Authorizing Pre-Petition Contributions in Accordance with the Employee Investment Program.
5. July 30, 1987 Order Authorizing LTV Steel to Enter into Certain Agreements and Programs and to Make Certain Payments.
6. August 1987 Summary of Proposed Agreement between the United Steelworkers of America ("USWA") and LTV Steel Company, Inc., published by the USWA.
7. September 18, 1987 resolution of PBGC's Board of Directors.

Also attached is a memorandum of a meeting on September 19, 1987, among Royal Dellinger and Scot McCulloch of PBGC and Raymond Hay, James Powers, Julian Scheer and Lou Kaden representing LTV.

Attachments

[Certain of the attachments referred to in the memorandum are reprinted at JA 141 (one consent order), JA 275 (USWA Summary of Proposed Agreement), JA 364 (September 18, 1987 PBGC Board resolution), and JA 356 (memorandum of meeting on September 19, 1987). The remaining attachments were omitted in printing.]

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Office of the Executive Director

September 22, 1987

MEMORANDUM

To: Kathleen P. Utgoff

From: Royal S. Dellinger

Re: Additional Meeting With LTV

Gary Ford and I met today with the following LTV officials and lawyers: Jim Powers, Chief Financial Officer, Emmett Smith, General Counsel, Julien Scheer, Director of Corporate Affairs, Frank Cummings, Special ERISA Counsel, Lou Kaden, outside counsel. Jim Powers indicated that LTV was most concerned about the equitable adjustment option. He stated that that option would be harmful to retirees and the estate and could precipitate a strike. As to the restoration option, he stated that the economic effect would be unclear (that it is a "never-never land"), that it would give rise to time-consuming litigation, that it would cast doubt on the reorganization and that it would be hard on other creditors.

Gary pressed them for any specifics they could offer as to the effect of either option on interested parties. Frank Cummings indicated that if they were unable to obtain any waivers, they could owe as much as $300 million in past due contributions for the *four* plans of which PBGC is now trustee, if all four plans are restored. He stated that they would be hard-pressed to come up with collateral for waivers.

Lou Kaden suggested that we drop our appeal of the Bankruptcy Court's approval of the follow-on plans, take no administrative enforcement action, and file a law suit against them seeking a declaration that the follow-on plans are illegal. They would agree in exchange to throw up no procedural roadblocks to a decision in the law suit. Gary said that he was concerned about the delay that would be involved in resolving yet another law suit, the propriety of asking the court for what is in essence an advisory opinion and the implication that the Agency is powerless to act administratively to correct an abuse that, under their proposal, could persist for months or years. We said we would consider the proposal and get back to them with a tentative response in 24 hours.

They repeated their request for 24 hours advance notice of any administrative action so that we can coordinate press materials and, if necessary, notify the stock exchange. I reiterated that we would give them as much advance notice as possible and that we would work hard to communicate to the workers in an unprovocative manner.

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Sep. 22, 1987

MEMORANDUM

To: William Deharde, Director
Insurance Operations Department

Gary M. Ford
General Counsel

From: Kathleen P. Utgoff
Executive Director

Subject: Restoration of terminated LTV pension plans

I have reviewed the recommendation of the SEPPAA Working Group to restore three terminated pension plans sponsored by LTV Steel Company, Inc., the record on which its recommendation is based, the additional information you provided and your endorsement of the Working Group's recommendation. I concur in this recommendation and believe such a determination is not only appropriate in these circumstances but necessary to protect Title IV's insurance program and the 40 million workers who depend on it. I also note that restoration of the LTV Steel pension plans is entirely consistent with the resolution recently adopted by the Board of Directors.

Attached, for your processing, is an executed Notice of Restoration.

[The attachment is reprinted at Pet. App. 182a.]

[PBGC Logo]

Pension Benefit Guaranty Corporation
2020 K Street, N.W., Washington, D.C. 20006-1806

Dec. 30, 1987

MEMORANDUM

To: Kathleen P. Utgoff
Executive Director

From: Gary M. Ford
General Counsel

Subject: Restoration Decision: LTV Pension Plans.

As you will recall, the Board of Directors of the PBGC held a meeting by telephone on September 18, 1987, to discuss your request for policy guidance on the restoration of pension plans under Section 4047 of ERISA. As Secretary to the Board, I participated in the meeting, and immediately after the meeting, provided you with a full report on the discussion that took place and the resolution that was adopted, so that you could consider the Board's views in determining whether to restore the LTV pension plans. I then prepared minutes of the meeting which were circulated to all of the Board members for their approval.

The minutes of the September 18, 1987 Board meeting have now been approved by each of the Board members. Accordingly, I am forwarding copies to you with this memorandum, for inclusion in the administrative record of your determination to restore the LTV pension plans.

Attachments

[PBGC Resolution 88-1 follows. The Board minutes are reprinted at Pet. App. 180a.]

PENSION BENEFIT GUARANTY CORPORATION
RESOLUTION 88-1

With the understanding that such resolution will not be adopted unless and until unanimously approved by all three Directors, I, in my capacity as one of the Directors of the Pension Benefit Guaranty Corporation, hereby vote to approve the adoption of the following resolution without a meeting of the Board:

RESOLVED that the attached minutes to the Board of Directors' Meeting of September 18, 1987, be adopted.

/s/ James A. Baker III
Secretary of the Treasury

Dec. 22, 1987

88-6244, 88-6246, 88-6252

IN THE UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT

PENSION BENEFIT GUARANTY CORPORATION,
Plaintiff-Appellant,
Cross-Appellee,

DAVID H. MILLER and WILLIAM W. SHAFFER,
Intervenors-Appellants,

v.

THE LTV CORPORATION and LTV STEEL COMPANY, INC.,
Defendants-Appellees,

OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF LTV CORPORATION, SUBCOMMITTEE OF PARENT CREDITORS OF THE OFFICIAL COMMITTEE OF UNSECURED CREDITORS OF LTV CORPORATION, LTV BANK GROUP, OFFICIAL COMMITTEE OF EQUITY SECURITY HOLDERS, BANCTEXAS DALLAS, N.A., FIFTH THIRD BANK, HUNTINGTON NATIONAL BANK, and CITIBANK, N.A.,
Intervenors-Appellees.

THE LTV BANK GROUP,
Intervenor-Appellee,
Cross-Appellant.

Appeal from the United States District Court
For the Southern District of New York

JOINT APPENDIX

JOINT APPENDIX TABLE OF CONTENTS
[Court of Appeals]

[Heading omitted in reprinting.]

INDEX TO EXHIBITS TO JOINT APPENDIX
[filed in the court of appeals]

[1] The documents separately bound in Volumes IA and IB of the Administrative Record are out of order because were initially sealed, out of a concern that they contained information that was, arguably, proprietary business information. With LTV's agreement, they were subsequently unsealed, but as a result, they remain separate from the documents to which they were originally attached.

VOLUME VII